

# DelfinGroup's ESG Report 2020

## Introduction

This is DelfinGroup's first Environmental, Social and Governance (ESG) Report.

This report is designed to give insight to our customers, employees, investors and other stakeholders how our business strategies and operations advance ESG objectives and contribute to long-term value creation.

We have created the ESG report framework and are committed to continue setting up KPI's that we measure and improve. This report is prepared in accordance with United Nations Sustainable Development Goals (SDG), Global Reporting Initiative (GRI) and Nasdaq ESG reporting guide.

This report encompasses ESG policies, principles and results reported from January-December 2020 across our subsidiaries – DelfinGroup and Vizia Finance.

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# DelfinGroup at a glance

CEO's statement

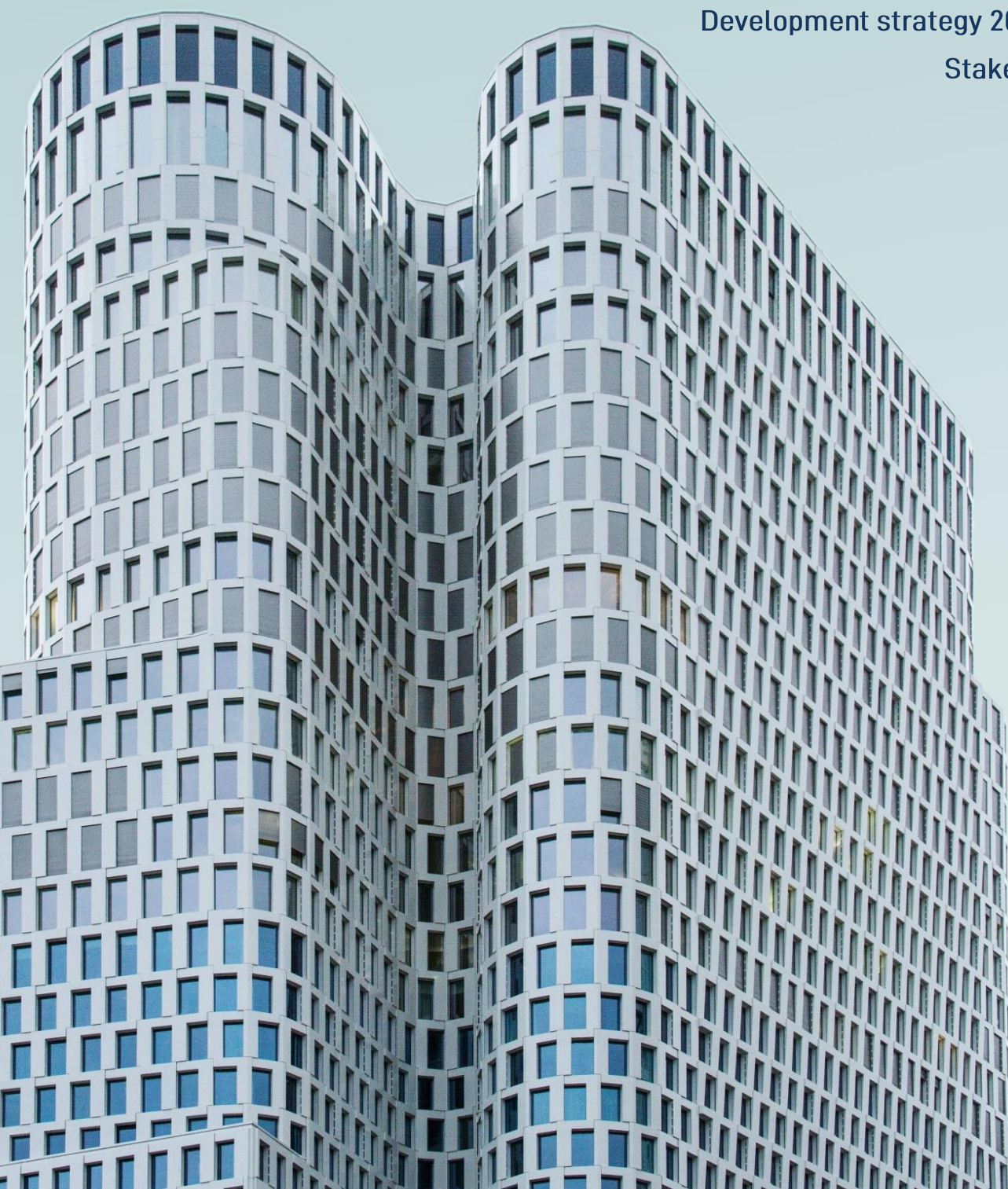
Vision, mission, values

DelfinGroup's business model and business  
segments

Highlights of 2020

Development strategy 2021-2022

Stakeholders



## Influencing factors:

- A market leader
- Focus on responsible lending
- Online and real-time presence
- Continued focus on corporate governance
- Ability to respond rapidly to regulatory changes
- Management team with significant expertise
- Continuing employee education
- Close relations with governmental organizations
- Participation in industry organizations
- Digitally advanced

## DelfinGroup at a glance

DelfinGroup is a consumer financial service provider in Latvia, offering consumer loans, pawnbroking services and the sale of pre-owned goods and jewellery. DelfinGroup was launched in 2009 and has established Latvia's biggest network of branches providing financial services. All services of DelfinGroup are available also online.

Company's future vision is based on today's investment in IT solutions, brand development and ambitious management. The growth of the Company is driven by a business strategy based on continuous upgrades and innovation of our products and services. DelfinGroup team consists of highly skilled and professional employees.

Company's priority is to provide fast and reliable financial services to our clients, ensuring client satisfaction and peace of mind, and maintain sustainable growth and stability for our shareholders and investors.

### Latvia-based company

DelfinGroup, a Latvia-based company, provides financial services while advancing the circular economy, inclusion and sustainability goals of our country.

As a company with a current strategy focused on Latvia, our ability to deliver long-term value for our stakeholders is tied to the strength and sustainability of Latvia's communities.

DelfinGroup is present in every single populated area of Latvia with at least 7,500 inhabitants, and online.

<b>2009</b> year of foundation.	<b>400 000</b> customers	<b>92</b> branches across	<b>270+</b> professional employees
<b>3</b> Brands:  BANKNOTE VIZIA RĪGAS LOMBARDS  PILSĒTAS	<b>3</b> Business profiles:  Pawn loans Consumer loans Sale of pre-owned goods and jewellery	<b>2<sup>nd</sup></b>  Largest non-bank consumer lender in Latvia in 2020	<b>5</b> historical bond issues  where the demand for most recent issue of bonds significantly exceeded the supply
<b>42%*</b> of pawn loan market in Latvia. <sup>1</sup> *2020, 1 <sup>st</sup> half	<b>2.5</b> mEUR Pawn loan portfolio <sup>2</sup>	<b>7.6%*</b> of consumer loan market in Latvia <sup>3</sup> *2020, 1 <sup>st</sup> half	<b>26.8</b> mEUR Consumer loan portfolio <sup>4</sup>

<sup>1</sup> <https://www.ptac.gov.lv/lv/statistika-par-nebanku-kreditesanas-sektoru>

<sup>2,3,4</sup> ibid



## CEO's statement



**Didzis Ādmīdiņš**  
**Chief Executive Officer**

This is the first time DelfinGroup has published an ESG report. Therefore it is an important event for us and we have placed a lot of effort into it as there is something special to share. Much work remains to be done and we continually strive to be better than we were yesterday. Being strong implies the readiness to swim against the current and to be different in a good way.

Since our inception in 2009 we estimate that we have served more than 400,000 customers. Someone may have purchased an item in our store, received a loan, or sold unnecessary goods on the secondary market. Many of these are repeat customers as we have a robust client base. They are our strength and those who value us.

We give our customers complete freedom to choose which of our services to use and we listen to our customers' wishes to improve our services or to develop new directions.

We have developed the 'Lietots.Pārbaudīts' (Used.Checked) circular economy initiative. We encourage people to save resources and buy pre-owned. By saving resources in the subject of this initiative, we mean not only what is needed to produce such a product from scratch, but also financial and time resources. The pawnshop buying service and the entry of goods into the secondary market is a great facilitator of the circular economy, and we also place more than 2,000 restored items on the secondary market every year.

We know that we are a part of society and our services are needed. Our customers have voted for our services and this large number of clients imposes responsibility on us. The responsibility which we feel is not limited to what is already provided for in national law. We are ready to do more - because we know it is right. Doing the right thing benefits both parties and society as a whole.

Natural resources deserve respect. It is responsible to both society and our investors. We continue to pay attention to reduced consumption of our energy resources and therefore benefit ourselves, society and the ecosystem. We also pay more attention to process automation, thus making processes faster, more efficient and more accurate.

Over the years, we have gradually developed our level of corporate governance and most recently 5 professional board members joined the Company's supervisory board, which I believe will add significant value to our organization and its governance. We are also committed to engaging in charity and social projects in line with the Company's values. For example, we have had successful cooperation with the Latvian Association of Senior Communities for several years, within which we have implemented several projects. It is a pleasure to see that our employees are happy to take part in such projects. We are a member of professional organizations such as Alternative Finance Services Association of Latvia (AFSAL) and Latvian Chamber of Commerce and Industry (LCCI).

We believe and see that a high level of corporate governance, responsible business practices and adherence to our strategy also build trust from our existing and potential investors. We value those who trust us and we see that this level of trust is increasing. This is the highest acknowledgement we can get and we treat this trust with the utmost respect.

## Vision, mission, values

DelfinGroup's vision: Building a sustainable society by empowering people and promoting financial inclusion.

Company provides a financial infrastructure that empowers much of the economic and community activity of our country. DelfinGroup has long understood that its long-term success and ability to deliver sustainable value for Company's stakeholders, is inextricably linked to the well-being of communities, the economy and the environment.

As part of its Sustainable Development Goals (SDG) for the 2018 Voluntary National Review for the United Nations, Latvia will focus on areas in which progress must be accelerated. Latvia's sustainable development challenges are concentrated in two vectors:

1. Ensuring an Innovative and Eco-Efficient Economy;
2. Reducing Income and Opportunity Inequality.








Progress will be achieved through ensuring sustainability of strategic resources - human resources, nature, culture, digital capital and finances (both at public and private levels). Putting people first is the all-embracing development approach.

Access to credit markets is vital to both individual economic welfare and aggregate economic growth, therefore it is crucial that all classes of borrowers can take part in the transactions made available by consumer loan providers. Borrowers can be classified in many ways such as race, religion, national origin, gender, marital status and age. Some of DelfinGroup's consumers are more vulnerable to limited access to the credit market than others, thus it is of utmost importance that financial inclusion exists in the consumer loan industry in order to achieve greater success both economically and socially.

Here at DelfinGroup, we understand our community and national challenges. A diverse range of financial services and accessibility for a large group of people contributes to social inclusion and the reduction of discrimination. Company provides opportunities for under-served groups of society such as older people to continue living active economic lives, which is difficult to access through the traditional banking sector. DelfinGroup is performing social function by providing services in regions where we are often the only electrical goods store and financial service provider.

DelfinGroup's mission: to create and provide innovative and custom finance solutions for our clients.

### DelfinGroup's values:

	Simplicity	our services are always simple and easy to understand.
	Accessibility	we are accessible to everyone and everywhere.
	Respect	we treat everyone with respect, and we are honest and open.
	Progress	we seek and find ways to improve our performance.
	Mastery	we are professional and hold ourselves to a higher standard.
	Focus on client	we listen to our clients carefully and offer custom solutions.
	Ambition	we are driven to grow constantly and become the best lender in the region in the long term.

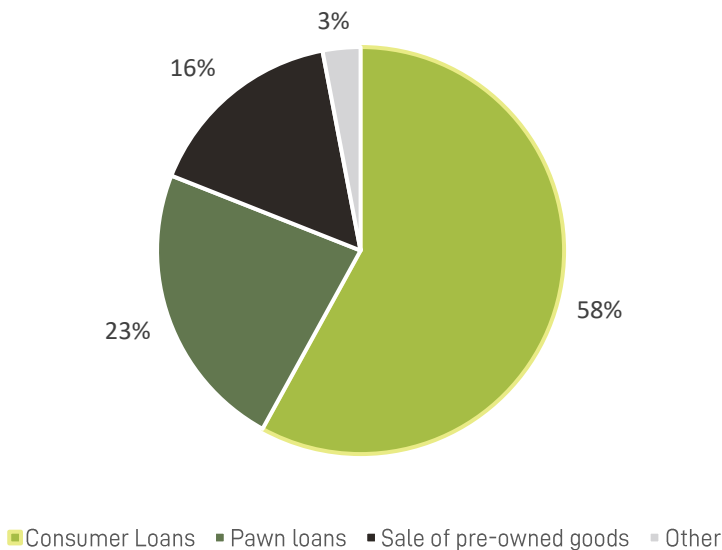


# DelfinGroup's business model and business segments

Sharing resources on a company-wide scale creates intelligent synergies while respecting the individual identities of our business segments. The combined strength of DelfinGroup is leveraged to benefit each of its business segments.

The core products of the DelfinGroup include consumer loans, pawn loans and the sale of pre-owned goods and jewellery.

Business model, by income distribution



## Consumer loans

Consumer loans are often called unsecured loans, meaning that borrower does not have to provide any collateral or any form of security. The decision to issue a loan is based on the thorough assessment of the client's solvency and income. DelfinGroup consumer loans are offered as instalment loans for set period of time with equal monthly payments. Submission of a loan application, as well as signing of the agreement is offered online, as well as in branch offices.

Consumer loans are offered by the Company's brands—Vizia and Banknote, -however the loan provisions and conditions differ for each brand.

- Vizia provides consumer loans through its online platform only;
- Banknote offers consumer loans through both its online platform and in the presence of both parties in-branch.

Loan amount: 100-5,000 EUR

Loan term: 2-60 months

## Pawn loans

Pawn loans are secured loans with items of personal property used as collateral or pledge. The decision to issue pawn loan is based on value of pledge as well as assessment of its working capacity, ownership (customer identification). Borrower's liability is limited only by the pledged property. Pawn loan agreement is signed at the branch office in person, but remote valuation has also been introduced, which significantly reduces service time at the branch. The most common pledges are electronics such as mobile phones, computers and several types of equipment, jewellery and watches. DelfinGroup pawn loans are offered as single payment loans, as well as instalment loans for set period of time with equal monthly payments.

The pawn loans are offered by two different and distinct brands of the Company, namely, Banknote and Rīgas pilsētas lombards (Riga City Pawn shop).

<b>Loan amount:</b>	Up to 95% of the value of the collateral
<b>Loan term:</b>	1-24 months

## Retail business

The retail business of pre-owned goods and jewellery operates under the DelfinGroup's brands Banknote and Rīgas pilsētas lombards.

The pre-owned goods include a variety of electronics such as mobile phones, computers and several types of equipment, art pieces, watches, etc. The pre-owned jewellery is generally made of precious metals such as gold and silver and set with precious gemstones such as diamonds.

The retail business of pre-owned goods and jewellery is operated by a team of experienced and skilled retail staff. The retail personnel are the face of the business and the first point of contact for customers. They are responsible for, inter alia, attending to customers, assisting in sales, and addressing enquiries. They also assist in the appraisal and inspection of goods which are intended for sale in Banknote stores.

Banknote and Rīgas pilsētas lombards purchase pre-owned goods and jewellery from both walk-in customers and unredeemed pledges from pawn shops. Most of the sales are provided by branch network, while the online store is the fastest growing sales channel.

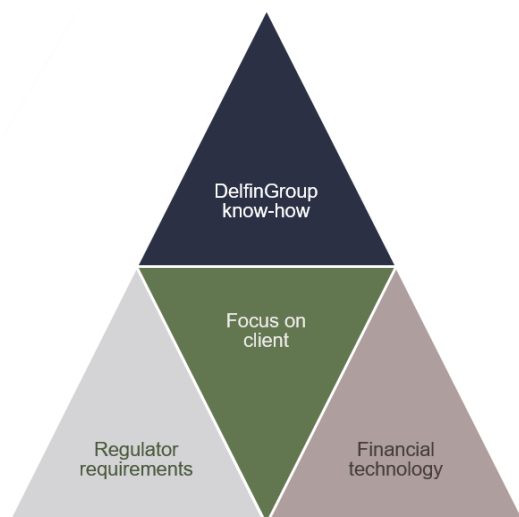
<b>Online sales:</b>	6%
<b>Offline sales:</b>	94%

## How DelfinGroup adds value

Value type	DelfinGroup impact
<b>Social</b>	Services that are accessible to a large group of people: <ul style="list-style-type: none"> <li>• Prime borrowers;</li> <li>• Near-prime (Subprime) borrowers;</li> <li>• Unbanked borrowers;</li> <li>• Underserved borrowers;</li> <li>• Residents of regions of Latvia (small towns, further from capital city);</li> <li>• Seniors.</li> </ul>
<b>Environment</b>	Development of the circular economy – prolonging the life cycle of pre-owned goods Efficient use of energy – ISO 50001 standards received.
<b>Community</b>	The estimated amount of various taxes paid for 2020 is 3.42 mEUR; Awarded Gold Level status as part of the cooperation programme with the Latvian State Revenue Service; Long-term charity cooperation with senior organisations.
<b>Shareholders and investors</b>	Well-known bond issuer - 5 bond issues, where the demand for most recent issue of bonds significantly exceeded supply; Dividends (for shareholders) paid out quarterly according to Company Dividend policy.



The value of the business consists of:



### DelfinGroup know-how

DelfinGroup uses big data carefully collected over 11 years of operation with hundreds of thousands of customers and millions of customer interactions and transactions.

Predictive models are built in-house based on historical data by applying machine learning algorithms to identify patterns and trends in data that can be used to make better business decisions.

Marketing and sales communications are based on historical patterns, showing how various customer profiles react to different communications channels and messages. Communications strategies are constantly adjusted using the latest data from marketing and sales campaigns.

The debt collection process is semi-automated, with machine learning models assessing the probability of non-collection and subsequently modifying collection communications. Collection cases are assigned to collection specialists based on their historical performance.

Our highly qualified employees constantly develop and improve their knowledge. DelfinGroup supports employee suggestions for improving products and services. Often, innovative solutions from front office staff are the best for meeting the needs of our customers.

### Financial technology

Machine learning algorithms are built in-house using the most popular programming languages, such as R and Python. DelfinGroup's data analysts use a wide variety of statistical and business intelligence software, including PowerBI, Jasp, KNIME and Anaconda, among others. DelfinGroup's business intelligence systems utilize data from cloud-based data lakes.

ETL (extract, transform, load) tools are combined with Microsoft Power BI visualization capabilities to visualize and present data in online reports available anytime and anywhere.

Dashboards with carefully chosen KPIs are used to monitor and evaluate the performance of our main business functions and departments. Access to real-time and near real-time visually-immersive and interactive insights allows management to carry out quick and confident data-based decisions.

### Regulatory requirements

Historically, Latvia's non-bank lending has been perceived worldwide as a strictly-regulated business segment. Non-bank lending is subject to numerous laws, regulations, policies, and guidelines. In recent years, the laws and regulations applicable to non-bank lending businesses have become more rigorous. The license for non-bank consumer lending and pawn shops is issued by the Latvian Consumer Rights Protection Centre <sup>5</sup>. This licensing framework establishes a high standard for entry into the lending business.

This all leads to high service standards, benefits for our clients, and a business model with the potential for accessing foreign markets.

### Client focus

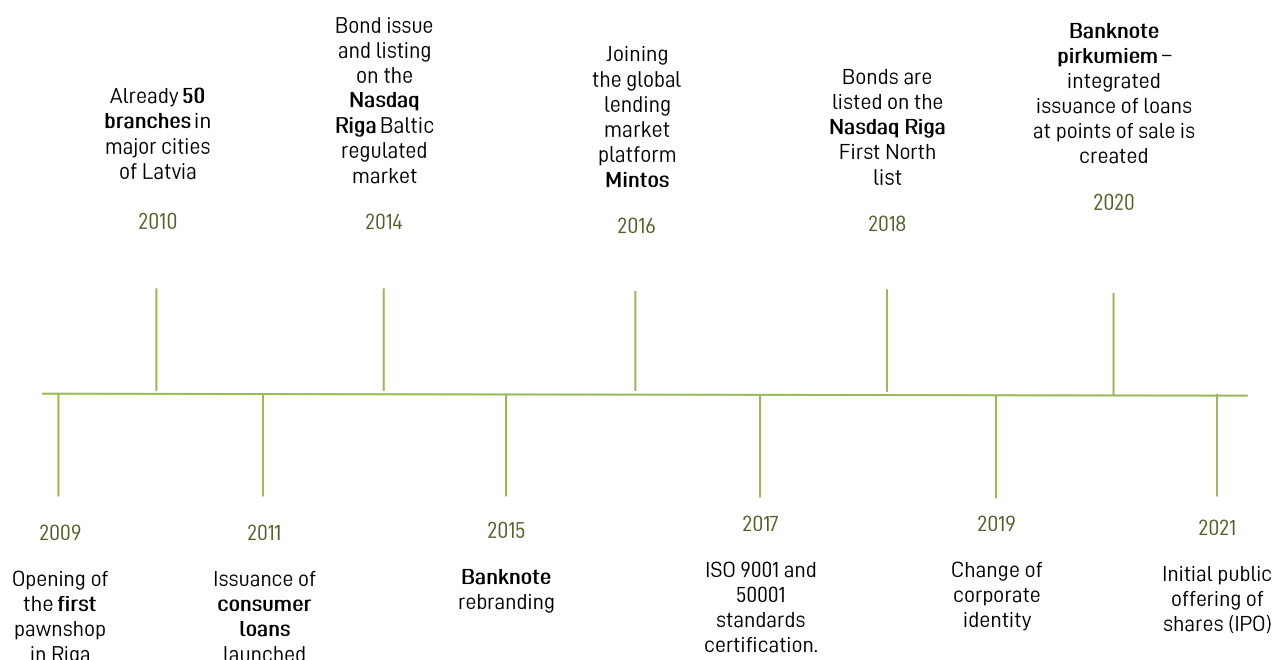
Putting customers at the heart of everything we do as a business places us in a better position to build relationships, help customers to achieve their goals, and increase customer satisfaction.

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<sup>5</sup> <https://www.ptac.gov.lv/en/services/licensing-consumer-lending-service-providers>

Our network of 92 branches spans across 38 Latvian cities and towns, while our call centre and website helps us to be accessible to our customers, know their needs, and allows us to anticipate market disruption or even drive it.

#### Historical timeline of the company's development since inception



### Highlights of 2020

#### Strength under pressure

Such factors as regulatory change, technological advancements and the implications of COVID-19 on consumer spending are all contributing to certain challenges for consumer loan providers, however, it has also allowed market participants to develop their business operations in a more resilient and consumer-friendly way.

The pandemic brought to light the importance of building a resilient economy, one that recognizes local business as the lifeblood of our country, prioritizes innovation and self-sufficiency, and promotes sustainable environmental and business practices.

During this challenging time, we have focused on making our services accessible while keeping team members and customers healthy and safe.

The well-known and difficult conditions of 2020 will make us stronger and more prepared for external shocks, and the pandemic has further motivated us to optimize our processes. The additional funds raised during the most recent bond issue will allow us to continue our course, as a result of which we are able to grow our loan portfolio, thus bringing in additional income and, consequently, developing the Company.



## Operational review

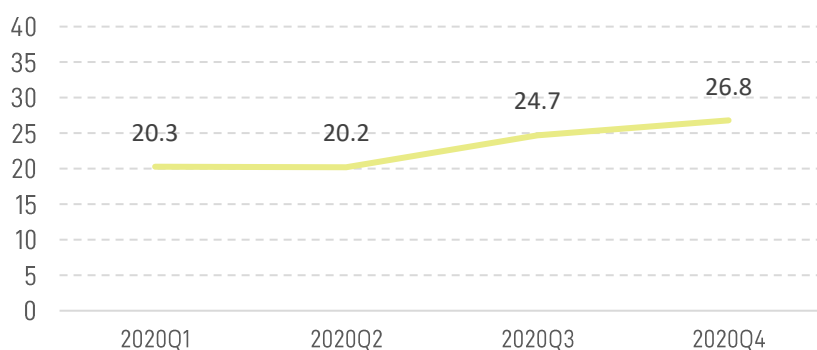


2020 was a year of quick response and changing rules of the game. Our utmost gratitude goes to our team for their ability to adapt, think and act creatively while maintaining a high standard of performance based on our values. We are exceptionally pleased with our prompt decision to adapt our strategies to the challenging external conditions. Both the teamwork and the products were appreciated by our customers, for whom we have created a safer environment both in our branches and by significantly improving our remote products.

If we look back to 2020, it is very clearly divided into 4 stages by both states of emergency: in the spring and at the end of the year.

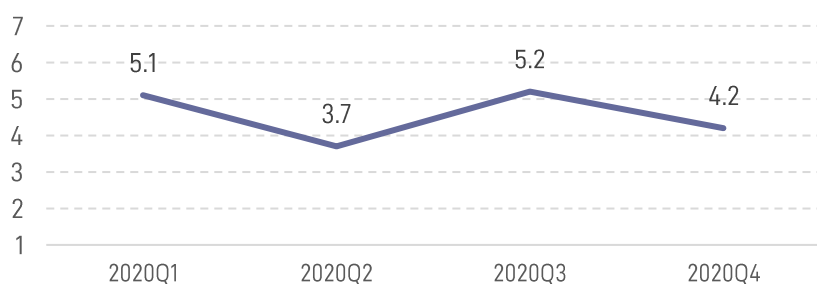
The first two months of the year 2020 continued the rapid dynamics of issuance and portfolio growth from the second half of 2019 in both consumer and pawn loan products. It was sharply slowed down by the restrictions imposed on March 12 because of the pandemics. In the case of pawn loans, the flow of customers in branches decreased significantly, while in the case of consumer loans, the company decided to re-evaluate its risk models and pursue a more prudent issuance policy.

Consumer loan portfolio, mEUR



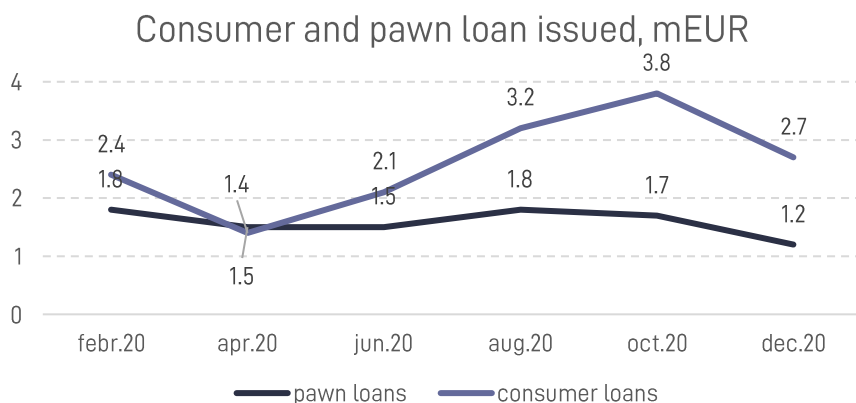
With the epidemiological situation in the country stabilising and most restrictions lifted on June 10, pawn loans returned to pre-crisis levels during the same month. Consumer loans recovered very rapidly and in both August and October we reached all-time high issuance rates of 3.3 mEUR and 3.8 mEUR respectively. With our consumer portfolio growing rapidly, we continued to adhere to a conservative level of risk, keeping the proportion of non-performing loans low.

Pawn loan portfolio, mEUR

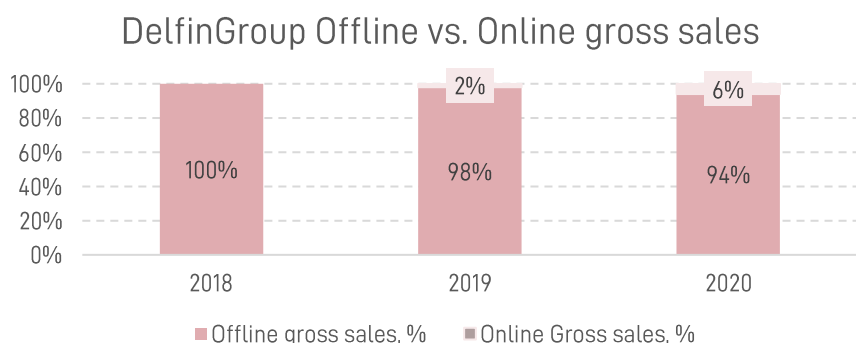


If the first wave of the emergency did not affect our store sales in any way, then the second wave threatened to have a significant impact on this business segment. Prompt improvements in expanding the functionality, promotion and range of goods in our online store helped to maintain planned sales. Online store sales more than doubled in the 4th quarter compared to the 3rd quarter. Pawn loans and consumer loans

reacted similarly to the spring, but our accumulated experience, and the fact that our strategy and products had already been adapted, made their decrease smoother.

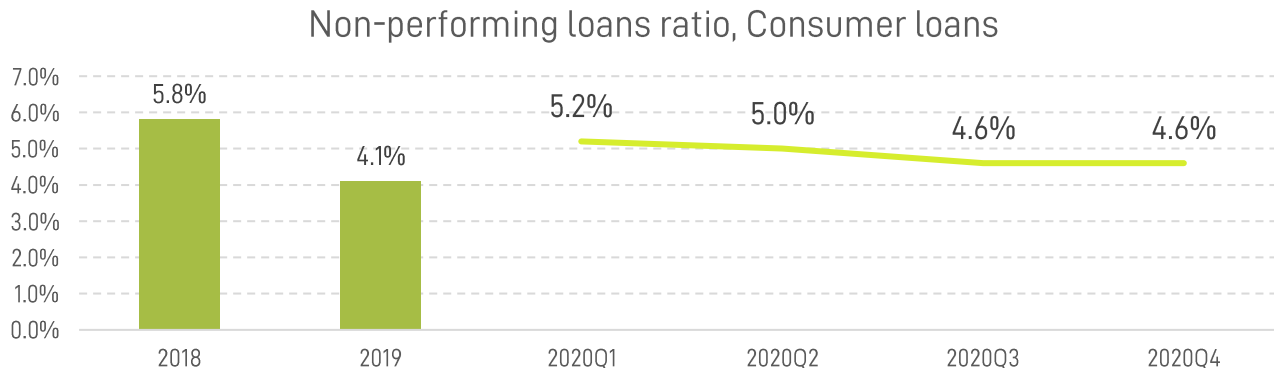


The main driving force in 2021 will be the increased market share in the consumer loan segment and our new Banknote Purchases product (a modern solution for the payment of goods). We can already see that the online store will remain an important channel for the sale of goods even after COVID-19 and we will be working purposefully to develop it.



Changes in the industry will continue to be driven by the increase in the annual fee for the license to provide consumer credit services, which came into force on 01.01.2021. Larger players, such as DelfinGroup, will not be directly affected, but smaller market players (especially in the pawn shop segment) have already been forced to merge or close down, and COVID-19 will

continue to accelerate this.



My own priority for 2021 will be to develop the pawn shop's image as a modern, financial technology product which promotes the circular economy and promotes financial inclusion of many groups of society. This product, offered by DelfinGroup, ensures synergy between business benefits, environmental sustainability, as well as involving stakeholders and the wider community.



## Financial review



DelfinGroup's financial results for 2020 were stable, and, given the global pandemic challenges, an upward trend can be distinguished in the results of the Company. Turnover of 23.7 mEUR was achieved, EBITDA reached 9.3 mEUR, net profit was 4.7 mEUR, and the loan portfolio increased to 34.4 mEUR.

The Company has continued to successfully adapt to the changes related to legislation, which came into force in 2019. As a result, interest rates for customers have decreased, which had a positive effect on lending and, consequently on the growth of the loan portfolio, reaching 34.4 mEUR at the end of 2020. DelfinGroup's revenue continued to increase in all lending segments and amounted to 23.7 mEUR. With EBITDA amounting to 9.3 mEUR, an EBITDA margin of 39% was ensured, which remained at a similar level of previous years.

The Company's pre-tax profit increased by 9.1%, reaching EUR 4.7 m (2019: EUR 4.3 m). The Company's assets increased to 46.0 mEUR (2019: 38.3 mEUR), so taking into account the facts above, the ROA (return on assets) ratio decreased to 9.3% (2019: 12.1%).

As the volume of assets continue to increase, financing considerations will play an increasingly important role. Efficient attraction of capital in the future will be one of the major factors of the company's competitiveness, on which the Company

has continuously worked over these years and will do so going forward as well.

In 2020 the increase in assets related to the growth of the loan portfolio was financed by an increase in the company's equity to 9.3 mEUR and a rise in borrowings to 30.8 mEUR. The total amount of borrowed funds was made up of 17.3 mEUR from the peer-to-peer loan platform Mintos and 13.5 mEUR from bonds (10 mEUR being admitted to trading on Nasdaq Riga First North list). Significant further growth of the Company is related to the ability to attract financing at more competitive rates both in the peer-to-peer platform and by raising financing via bond emissions. In the second half of 2020, DelfinGroup received one of the highest scores, representing lowest risk for investors on the Mintos platform. There is increasing importance of Mintos ratings among Mintos investors, of which more than 70 000 have invested in the loans that relate to DelfinGroup's issued loans. The fact that importance of risks is increasing for Mintos investors suggests that rates will decrease in the future as the Company will make further work to excel in corporate governance and sustainability issues, thus minimizing the risks further.

Similarly, on 30 September 2020, an emission of 3.5 mEUR unsecured bonds was successfully concluded at a coupon rate of 12%. This was a significant indication of a further anticipated reduction in interest rates, which is also confirmed by the active trading of bonds admitted to trading on Nasdaq Riga First North. This consists of two issues for a total outstanding amount of 10 mEUR (14% coupon rate), the trading volume of which in 2020 reached more than EUR 900 thousand, while the price reached 105%. Over these years the Company has built a solid bond investor base. According

to the data from Nasdaq CSD as of 18/03/2021, there were in total 131 investors in the three most recent bond emissions. Of these, 69% represented private persons and 31% legal entities. From an invested value perspective 30% represented private investors and 70% legal entities. The investors come from many countries: 38% of investors by investment volume representing Latvia, 27% - Estonia, 12% - Germany, 6% - Lithuania, 7% - Austria and 10% residents of other 15 countries.

### Bond investor map



\*03.2021 Bond investor structure according to Nasdaq CSD

### Mintos active investor map\*



In the second half of 2020, in line with better understanding of anticipated economic developments, dividends totaling 3 mEUR after tax were paid. The dividend payment policy by the Company's shareholders was approved, which declares the payment of quarterly dividends in the amount of 50% of the preceding quarterly profit and additional annual dividend payment scope provided that the optimal equity ratio and strategic growth of the

company is ensured. The regular payment of dividends and the provision of their amount is essential for the successful attraction of additional equity financing, thus strengthening

\*03.2021 Mintos active investor structure

the company's financing structure and further reducing debt financing rates.

As the regulatory risks diminish and the Company is able to prove its performance in the challenging 2021 year, DelfinGroup will continue to focus on risks and their mitigation. This is directly reflected in the rates of attracted capital financing, thus being one of the most important strategic priorities. The Company's management board actively works to manage both strategic and operational risks, as well as financial risks. The newly elected supervisory board will provide additional assurance by overseeing the management board on performed risk management practices. This ESG report serves as a reference point for the handling of sustainability risks.

Financing structure			
EUR'000	31.12.2020	Interest rate, %	Maturity
Secured bonds III*	5,000	14%	10/2021
Secured bonds IV*	5,000	14%	11/2022
Unsecured bonds	3,481	12%	11/2022
Peer-to-peer lending platform Mintos*	17,285	13.6% (effective rate)	According to issued loans
Private loans	400	14.00%	Up to 3 years
Accrued interest and bond commissions	-17		
<b>Total</b>	<b>31,215</b>		

Key financials:

EUR'000	2016	2017	2018	2019	2020
Total assets	15,992	21,317	26,666	38,270	45,959
Equity	2,806	3,689	5,954	8,367	9,251
Long term liabilities	6,506	8,497	7,189	13,173	17,991
Total income	15,424	18,028	18,850	22,178	23,664
EBITDA	2,795	5,685	7,174	8,186	9,274
EBITDA margin	18%	32%	38%	37%	39%
EBIT	2,600	5,476	6,924	7,116	8,142
EBIT margin	17%	30%	37%	32%	34%
Net profit	0,961	2,953	4,546	3,913	3,897
Net profit margin	6%	16%	24%	18%	16%
Equity ratio	18%	17%	22%	22%	20%
ROCE	28%	45%	53%	33%	30%
ROA	7%	16%	19%	12%	9%
ROE	38%	91%	94%	55%	44%
Current ratio	2,0	1,9	1,6	1,5	1,3

Definitions:

Total income = Net sales + Interest income and similar income;

EBITDA - Earnings before interest, taxes, depreciation and amortization calculated as Net profit + Interest + Taxes + Depreciation + Amortization;

EBITDA margin = EBITDA/ Total income;

EBIT – Earnings before interest and taxes calculated as Net profit + Interest + Taxes;

EBIT margin = EBIT/ Total income;

Net profit – Earning after subtracting all of expenses from total income;

Net profit margin = Net profit/ Total income;

Equity ratio = Total equity/total assets (at the end of the period);

ROCE (Return on capital employed) = EBIT / (Total Assets - Current Liabilities) at the end of the period;

ROA (Return on assets) = Net profit/ Average total assets;

ROE (Return on equity) = Net profit/ Average total equity;

Current ratio = Current Assets / Current Liabilities (at the end of the period).

## Development strategy 2021-2022

The Company's strategy is to be a growing consumer loan provider and to develop its retail business selling pre-owned goods and jewellery in the Latvian market. To continue improving the DelfinGroup's performance indicators, the Company has set a goal to achieve an economies of scale effect which requires an increase of customers in the current market. By achieving this goal, the Company hopes to further increase value for its stakeholders.

**The objectives of the Company for achieving its strategic goals are as follows:**

Financial inclusion with regards to the near-prime consumer segment. The goal for the Company is to increase DelfinGroup's market share in the near-prime consumer loan segment. DelfinGroup can offer affordable and beneficial products, as well as modern service solutions, for the economic goals of the near-prime consumer segment. The Company has confidence that this is a sustainable and necessary financial service for society as a whole. DelfinGroup focuses on product customization, service convenience and customer benefit.

Circular economy and sustainability. The Company actively engages in raising awareness of the importance of the circular economy in terms of improving and strengthening the sustainability of its business and in society. The Company will strive to make DelfinGroup's pawn shop branches a point of exchange for pre-owned goods and jewellery to ensure a longer life cycle for them and further strengthen this business line.

Digitalisation and accessibility of innovative services. Being digitally advanced and providing innovative services reflects the essence of the Company and its core values. Therefore, its objective is to continue its development both in the services offered and in the way the Company operates and conducts business.

### Financial goals

- >25% ROE.
- <50% Cost to income ratio.
- 9.2-11.4 mEUR Total profit (before CIT).
- >60% the level of bonds in borrowed capital.
- 27-32% equity ratio.
- >45% of the profit to be paid in dividends while retaining the equity ratio below 32%.
- <9% capital raising interest rate via bonds and peer-to-peer platform.

### Non-financial value

Through unique business model, DelfinGroup not only creates value for investors, but contributes significantly to the local economy and communities.



- To promote environmental sustainability through the efficient use of natural resources.
- To ensure a high level of social responsibility through the implementation and support of charity and social responsibility projects in line with the Company's values.
- To ensure a high level of corporate governance.
- To promote the circular economy through pawn shop services.
- To include a wide spectrum of society financially: regions, seniors, underbanked, unbanked, underserved, near prime, subprime.
- To continue to develop online channels for providing services.
- To promote and encourage an equal, diverse and inclusive work environment and organisational culture.

#### Growth strategy by product until end of 2022

<b>Pawn loans:</b>	
	>40% market share by loan portfolio
	>50% market share by volume of loans
	>3.1 mEUR loan portfolio size
<b>Consumer loans:</b>	
	>10.5% market share by loan portfolio
	>47.7 mEUR loan portfolio size
	<5% loan portfolio NPL <sup>6</sup>
<b>Pre-owned goods shop:</b>	
	8.5 mEUR volume of goods sold, excluding jewellery. +23%
	2.6 mEUR volume of jewellery sold. +44%
	>2.5 mEUR volume in transactions for the purchase of goods. +75%

<sup>6</sup> NPL – a nonperforming loan is a loan in which the borrower is in default due to the fact that they have not made the scheduled payments for a specified period.

## Stakeholders

The Company's key stakeholders are its shareholders, employees, regulators and customers, as well as the communities in which it does business. The Company takes care to engage with its stakeholders, and continually reviews its engagement mechanisms in order to make sure that it is engaging with its stakeholders effectively.

	Why DelfinGroup engages	How DelfinGroup engages
<b>Employees</b>	Our employees know our business best, and we value their feedback as an important way of improving our business operations.	We aim to create a dynamic, caring and inclusive culture. We want our team to be proud of their work and to feel rewarded in the workplace. We have multiple routes for generating feedback from our employees. We use: Training programmes; Mentoring programmes; Surveys.
<b>Customers</b>	By understanding what our customers think about our products and services, we can constantly strive for improvements that match their priorities.	We operate multiple communications channels with our customers to generate feedback, insight and understanding their preferences and needs. We use: Customer feedback mechanism; Store-level staff with local customer relationships; Customer-focused website.
<b>Regulators</b>	Regulators give us a licence to operate and set the terms for providing services. Regulators have a significant role in providing a safer financial service environment. As such, it is valuable for the business to maintain regular communication with regulators to identify areas in which it can help progress our agenda.	We engage in regular and transparent dialogue with regulators. We participate in industry events and forums to better understand the requirements of the regulators.
<b>Communities</b>	Being able to engage in a rich community life both in and out of work is a crucial factor for the wellbeing of our employees. At the same time, local communities can be the greatest advocates for a business, particularly when it comes to recruitment. To maintain a positive relationship, we need to listen to local issues and understand how we can have a positive impact.	Happy aging is a goal we can achieve by providing support and moments of joy to Latvian seniors. We launched Caring For Seniors, a social responsibility project which helps Latvian seniors with household appliances, home improvements or repair work. We also take care of the wider community by providing inclusive financial services as well as performing social function by opening stores in small towns where Banknote is often the only financial services provider, electrical goods and jewellery shop.
<b>Shareholders</b>	The relationship between the Company and its shareholders is based on trust, transparency and prompt disclosure of information. We must demonstrate a high level of openness with our shareholders to maintain confidence in our ability to create value.	Ongoing communication with shareholders is ensured by: The financial reporting developed in accordance with IFRS (The International Financial Reporting Standards Foundation) standards; Regular General Meetings; Information disclosed according to Nasdaq Riga stock exchange requirements.
<b>Investors</b>	We have a diversified funding structure with a peer-to-peer platform Mintos and regular bond issues. Our investors want to understand how we are managing the business to generate sustainable returns through the cycle and to promote the long-term success of the Company.	Annual and quarterly reports in accordance with IFRS standards and other presentations are published on Nasdaq Riga, DelfinGroup and Mintos websites.

<b>Suppliers</b>	We work with partners in various areas of our business. It is imperative that we maintain an open dialogue with our partners in order to operate effectively and responsibly.	We maintain a regular dialogue with our partners to ensure that our visions and, most importantly, values are aligned. We evaluate our partners in terms of the environment, sustainability indicators and respect for human rights.
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## Membership in organizations



**ZELTS**  
Padziļinātās sadarbības  
programma

The Company is a member of the Latvian Chamber of Commerce and Industry (LCCI). LCCI is the largest association of entrepreneurs in Latvia. DelfinGroup actively participates in the working groups of the LCCI Trade Competence Council, as well as in the work of the Financial Sector Development Committee.

The Alternative Financial Services Association of Latvia (AFSAL) unites financial technology or FinTech companies, as well as other companies operating outside the banking sector and providing financial services to the residents of Latvia.

DelfinGroup is also a member of the Baltic Institute of Corporate Governance (BICG), a non-profit, non-governmental association that engages businesses and political leaders in encouraging best corporate governance practices in Lithuania, Latvia and Estonia.

DelfinGroup is the only non-bank lender among 76 best governed companies in Latvia that has received Gold Level status within the framework of the State Revenue Service In-Depth Cooperation Programme.



# Environment

Environmentally responsible workplace

The pawn shop as a part of the circular economy





The core elements of DelfinGroup's environmental performance:

- Environmental excellence
- Goods lifecycle and reparability
- Energy efficiency
- CO2 impact from operations
- Supplier environmental and social responsibility

## Environmental sustainability

### Environmentally responsible workplace

#### Greenhouse gas emissions<sup>7</sup>

Caring for the land and environment is a traditional Latvian value and sustainability concept, a way of life that respects, conserves, and protects our natural resources for future generations. For DelfinGroup, we prioritize protecting the Latvian environment and culture, as they are inherent in what makes Latvia special and unique. This is why DelfinGroup needs to reduce its environmental impact. One of the most significant ways to do this is by reducing our carbon footprint.

DelfinGroup's CO<sub>2</sub> impact from operations

Direct emissions. Scope 1 includes emissions from:

- Combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites;
- Combustion of petrol and diesel in owned transportation devices.

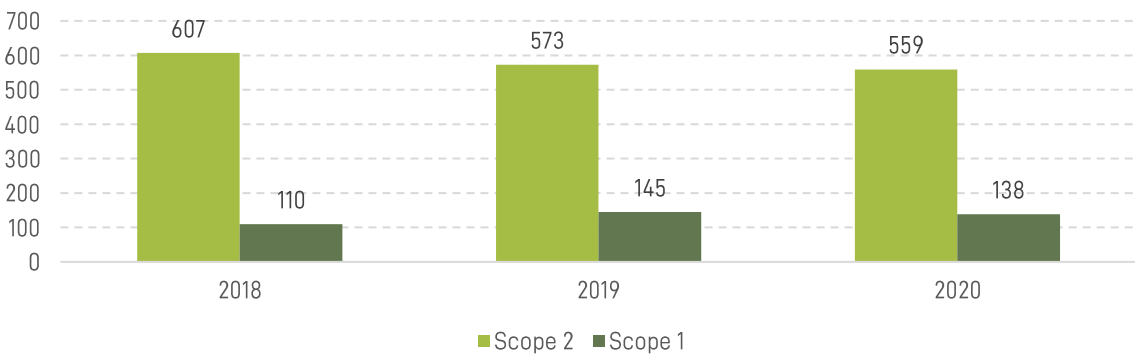
Indirect emissions. Scope 2 includes emissions from:

- Electricity used at owned and controlled sites.

Reported data is collected and reported on with respect to DelfinGroup as the core entity, which includes all of its offices and retail branches. Following the ISO 50001: 2015 certification obtained in 2017, DelfinGroup collects data on energy efficiency with particular care.

The Company makes sure that Scope 1 impact remains low, and is constantly working to reduce the level of Scope 2.

DelfinGroup's impact of CO<sub>2</sub> from operations, metric tons\*



\*Market-based method

#### DelfinGroup vehicle fleet

According to the European Environment Agency, transport is responsible for nearly 30% of the EU's total CO<sub>2</sub> emissions, of which 72% comes from road transportation. Passenger cars are a major polluters, accounting for 60.7%

<sup>7</sup> Refers to Nasdaq ESG Reporting Guide. Both here and elsewhere

of total CO<sub>2</sub> emissions from road transport in Europe. However, modern cars could be among the cleanest modes of transport.<sup>8</sup>

In recent years, we have reduced our number of cars by optimizing the supply chain. In addition, we invest in fleet renewal. Our average car age does not exceed 4 years.

	2018	2019	2020
<b>Vehicle count</b>	20	18	15
<b>Average age of DelfinGroup's vehicle fleet</b>	3.6	4.0	3.6

We are also aware of the impact of our Scope 3 level.

Indirect emissions – not owned. Scope 3 includes emissions from:

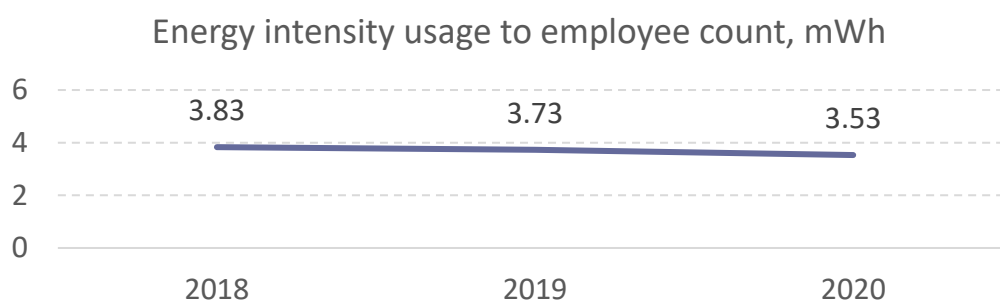
- CO<sub>2</sub> emissions arising from upstream activities, for example we value our suppliers and prefer to choose those who are environmental and social responsible.
- CO<sub>2</sub> emissions arising from downstream activities – customers who buy goods or use the loan. Our priority is to move to the green consumption.
- CO<sub>2</sub> emissions during operation ,e.g. air business travel;

Supplier environmental and social responsibility.

The way to reduce our impact on the environment is to choose suppliers carefully. DelfinGroup's business partner research policy determines the criteria and parameters according to which a supplier is selected. Not only are the quality and cost of a service important to us, but also the values of the supplier. In our opinion, this is the best way to control Scope 3 impact on the environment.

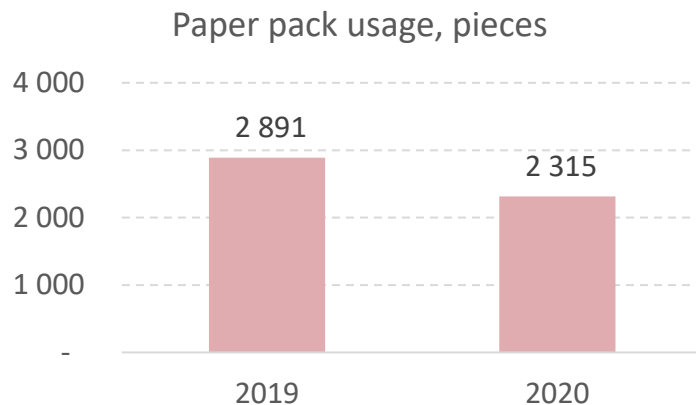
**Energy intensity = energy usage/employee count**

Energy intensity is calculated based on annual electricity, heat and petrol usage to employee count.



<sup>8</sup> <https://www.europarl.europa.eu/news/en/headlines/society/20190313STO31218/co2-emissions-from-cars-facts-and-figures-infographics#:~:text=After%20a%20steady%20decline%2C%20newly,2017%20than%20the%20year%20before.&text=On%2018%20April%2C%20MEPs%20also,compared%20to%202019%20emission%20levels.>

## Paper usage (Scope 2)



Paper is a part of our everyday lives and we should use it wisely.

In 2020, we reduced the amount of paper used in our branches by 20%. We also regularly review the need to print documents and are working towards greater digitization

## Environmental operations=ISO 50001

DelfinGroup received an energy certification under the ISO 50001:2015 standard in 2017.

ISO 50001 provides a framework of requirements for organizations to:

- Develop a policy for more efficient use of energy;
- Set targets and objectives to meet the policy;
- Use data to better understand and make decisions about energy use;
- Measure the results;
- Review how well the policy works;
- Continually improve energy management.

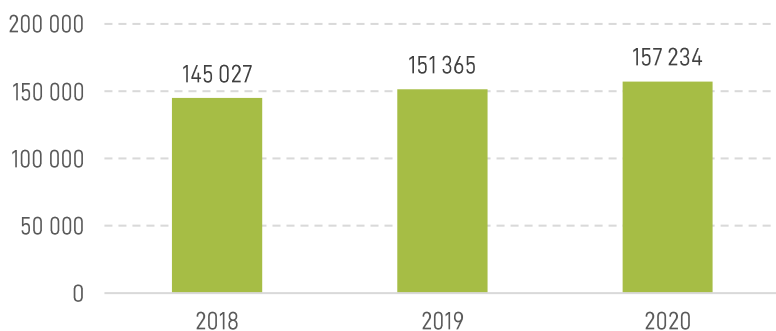


## The pawn shop as part of the circular economy

The idea of the circular economy has been developing for years, but has accelerated recently with the increased focus on sustainability. In recent years, both demand and supply of pre-owned goods have grown convincingly. The volume of DelfinGroup's goods sold on the secondary market has increased by about 5% every year. It is a steadily-growing niche.



Goods sold on secondary market, pieces



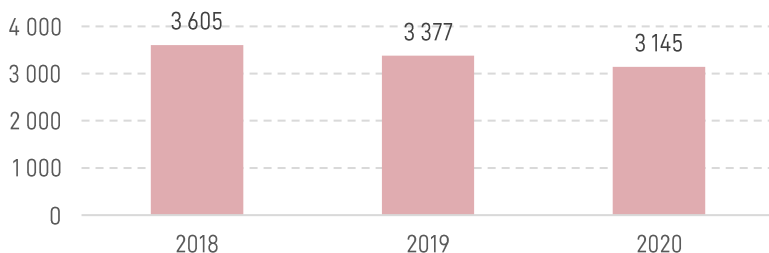
One of the circumstances that prevents people from finding a new owner for their belongings is the geographic distance and time needed for the goods to reach their new owner. Over the past 11 years, DelfinGroup's brand Banknote has developed and cultivated a network of 92 branches so that it would be readily accessible to as large audience as possible. Thanks to this network of branches, we can ensure convenient purchase of goods to buyers anywhere in Latvia.

Utilizing experience and technologies, DelfinGroup constructively creates a second-hand market by determining the market value of goods and also offering them online in an online store. Every item that is placed in the Banknote store goes through a meticulous inspection process, where its condition is assessed and refurbishment or repairs are carried out if necessary. If the specialists conclude that investment in the further use of the item exceeds its potential market value, DelfinGroup ensures environmentally friendly and responsible disposal of the item.

### Goods repaired and returned to the secondary market

Our specialists inspect all items that end up in DelfinGroup's pawn shops. Both the technical condition and their origin are checked before the item is accepted as a pawn or purchased in our pawnshop. If necessary, the goods can go to our workshop, where they will be repaired and returned to the secondary market. Every year, we repair over three thousand devices that can be returned to the circular economy. In recent years, the number of repaired items has decreased, which is due to:

Goods repaired and returned to secondary market, pieces

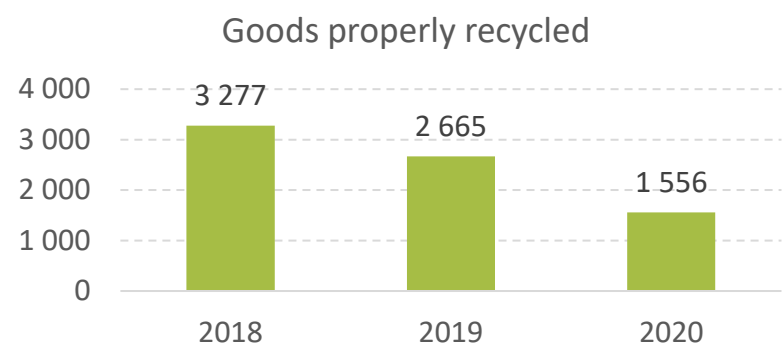


1. Our employees' level of knowledge of the acceptance and inspection of goods improving constantly;

2. More environmentally aware customers tend to sell goods that are still in a good working condition.



Goods properly recycled



In turn, items that cannot be restored are disposed of accordingly. We are particularly responsible when choosing partners who deal with disposal. Meanwhile, by improving the knowledge of our employees and using the parts from broken goods as spare parts, we reduce the number of items that need to be disposed of. In this way, we have reduced the number of items disposed of by 50% in the last two years.

Greenhouse gas emissions in the process of production for sold items on the secondary market

According to Apple's iPhone 11 ESG report, manufacturing one smartphone is estimated to create around 57kg of CO<sub>2</sub> equivalent emissions,<sup>9</sup> which is one of the lowest footprints in electronics manufacture. DelfinGroup returns around 155,000 goods to the secondary market every year, which saves around 8,800 metric tons of CO<sub>2</sub> per year which would be emitted in the production of new goods.

In Latvia, CO<sub>2</sub> emissions per capita are 4.33,<sup>10</sup> meaning that the average Latvian citizen clocks in at 4.33 tonnes per year. Through its operations, DelfinGroup covers 2032 people's CO<sub>2</sub> emissions each year.

<sup>9</sup> [https://www.apple.com/environment/pdf/products/iphone/iPhone\\_11\\_PER\\_sept2019.pdf](https://www.apple.com/environment/pdf/products/iphone/iPhone_11_PER_sept2019.pdf)

<sup>10</sup> [Where in the world do people emit the most CO2? - Our World in Data](#)

# Social responsibility

Employees

Customers

Community investments



Taxes paid by  
DelfinGroup to the state  
budget:

2020 – EUR 3,459,660

2019 – EUR 2,954,735

2018 – EUR 2,689,267

## Social responsibility

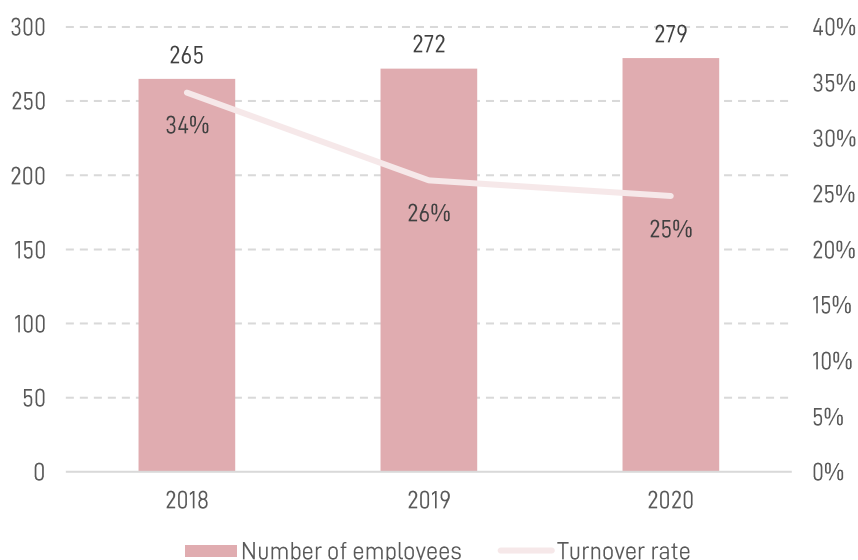
### Employees

DelfinGroup's substantial continued progress is only possible because of the dedication and abilities of our employees. We are proud and thankful for our team's contribution over the years. Our aim is to recruit the best talent available from within our industry and beyond. DelfinGroup also evaluates internal talents and ensures career growth. We believe that this approach provides a solid foundation from which we can grow our business further and continue to provide our customers with outstanding quality and service in the future.

#### Investing in our employees

We are committed to the development of our employees in order to drive our success. A shortage of skilled workers means that attracting and retaining the best people is an important priority for the business. Our focus on retention has resulted in a reduction in employee turnover this year.<sup>11</sup> We seek to create a wonderful place to work, founded on an open and honest culture. We understand that, to continue to improve this, we need to engage with our people on a regular basis so that we can understand their issues and concerns.

Employee number and turnover rate

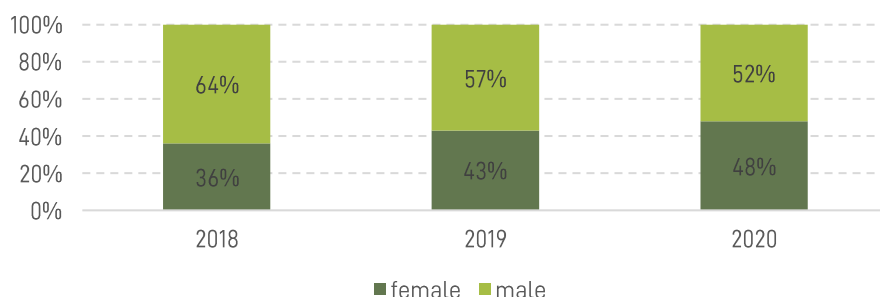


### Diversity and inclusion

Our company is comprised of team members from all walks of life. This diversity presents an advantage as it provides us with a wealth of experiences and perspectives, which enlightens our customers, who are diverse themselves. We do not tolerate racism, discrimination, or harassment of any kind.

#### Gender diversity

Employee gender diversity



DelfinGroup's teammates are highly diverse, both in terms of age and gender diversity. As reflected in our gender diversity chart, in 2020 almost half of all team members were female.

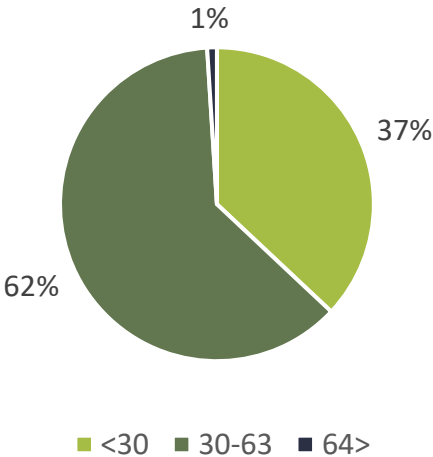
<sup>11</sup> Employee number dynamics and employee turnover rate chart

**Age diversity**

Age diversity is extremely important; on the one hand, it can help reduce employee turnover, while on the other, age diversity drives innovation. It has been reported that experienced workers can contribute to lower turnover, as they are loyal workers who typically stay in their jobs longer than younger employees. Age diversity in the workplace also brings about different experiences, expectations, styles, and perspectives. All these differences can become a source of strength and innovation.

As reflected in our age diversity chart, in 2020 about 60% of employees were older than 30 and about 40% of employees were younger people. This allows us to maintain a good balance between experience and innovation. We are also happy to work with people of retirement age.<sup>12</sup>

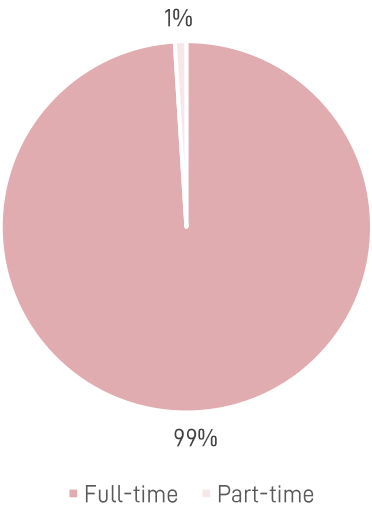
Employee age diversity in 2020



**Part-time workers**

DelfinGroup is a responsible employer - 99% of DelfinGroup employees are full-time workers.

Full-time vs. Part-time workers in 2020



<sup>12</sup> The retirement age in Latvia in 2020 was 64 years.



## The DelfinGroup academy

The training department team consists of company employees who work side by side with other colleagues on a daily basis and know the company's products from a practical perspective.

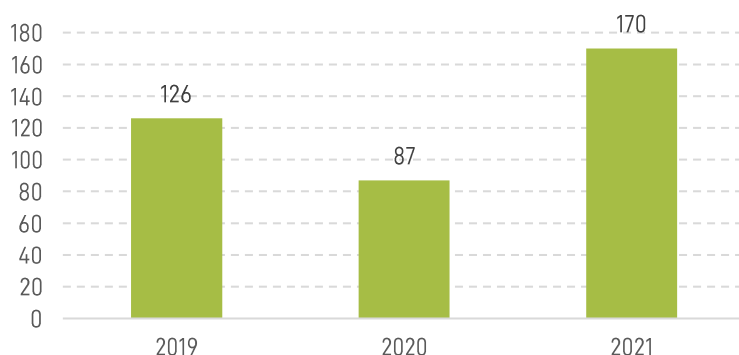
Main training types:

- Personality development: training to acquire new, unique knowledge;
- Professional master class: regular training to ensure the level of knowledge required for staff to perform their duties at a high level;
- Briefing: training which is mostly set by state organizations as mandatory or comes from the need for the accurate implementation of a new product or process;
- Team building.

It is important for DelfinGroup that training is effective. This means that every team or department can choose the best training methods for their needs. There are several methods employees can choose to develop their skills.

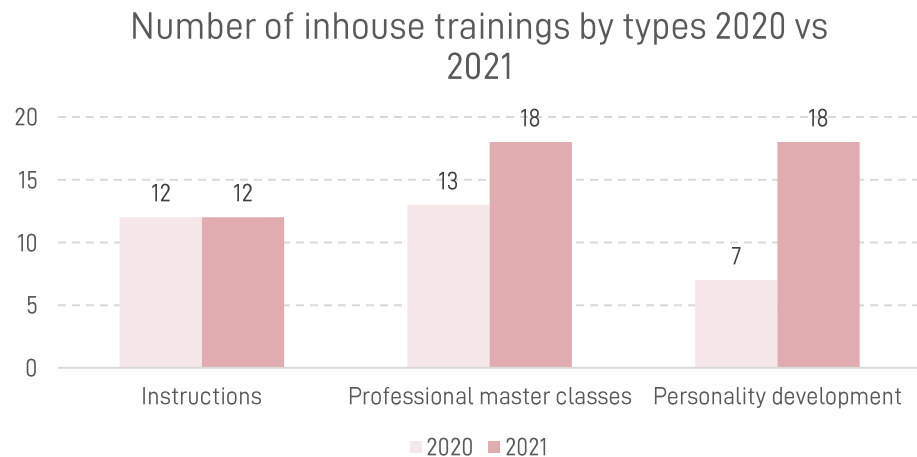
Training method:	How it works:	Channels:
<b>Classroom-based training programmes</b>	Led by a qualified lecturer. Such training takes place over one or more days in a physical venue on- or off-site. Groups of employees go through a series of presentation slides and activities, like case study assessments or information on company policy issues.	The DelfinGroup team/ Outsourced partners
<b>Interactive training</b>	Interactive training actively involves learners in their own learning experience. This training can take the form of role plays, scenarios, simulations, quizzes or games	DelfinGroup's Head Coach/ Outsourced partners
<b>On-the-job training</b>	The employees are actively involved in learning and participate in real activities that relate to their current or future job.	DelfinGroup's mentoring programme
<b>Online Training</b>	Online workplace programmes can include eLearning courses, webinars, and videos, allowing information to be presented and tested in diverse ways. It also means employees can learn on the go.	DelfinGroup's intranet platform

Training hours per employee

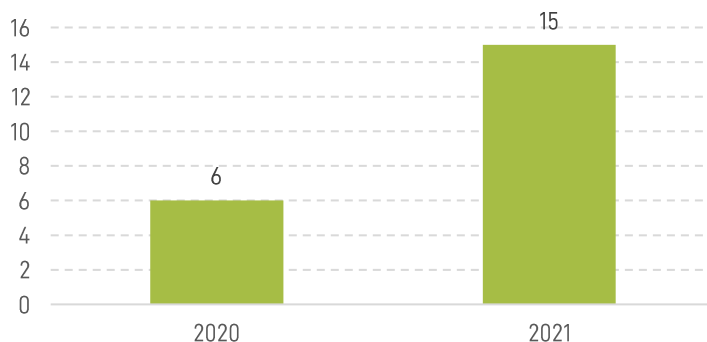


Due to the pandemic, average training hours per employee went down in 2020. However, we plan to increase the number of training hours in 2021.

In 2021, we plan to invest in the personal growth of our employees. Personality development classes at the workplace extract the best out of individuals and encourage them to deliver their very best. The increase in the number of professional masterclasses is related to the increase in the range of products and services offered by the Company.



**Number of newly created trainings  
2020 vs 2021**



We are constantly working on curriculum development. In 2021, new curricula will be launched, which correspond to modern trends and market requirements.

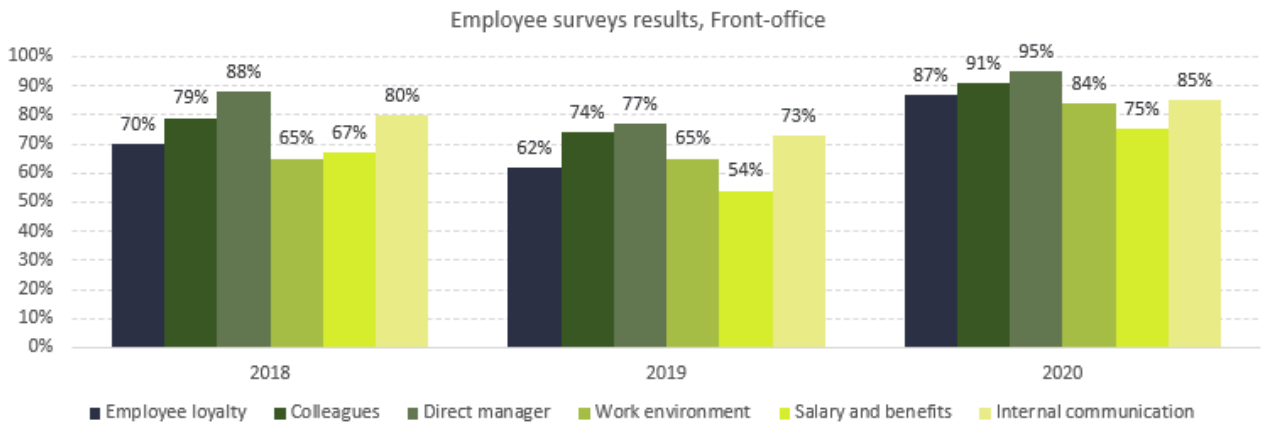
### Employee engagement

We already have a well established tradition of conducting an employee satisfaction survey. The annual employee survey helps us better understand our weaknesses and work to raise employee satisfaction further. We are truly pleased and honoured that employee satisfaction has increased significantly despite the unusual conditions brought about by the pandemic. We also feel that the challenges united us and showed that we care for one another.

2020 Employee survey results, Front-office.

Significant increases in categories where improvements were needed (% of positive answers - 2019 vs 2020):

- Remuneration and benefits (54% vs. 75%)
- Work environment (65% vs. 84%)
- Employee trust and loyalty (62% vs. 87%)

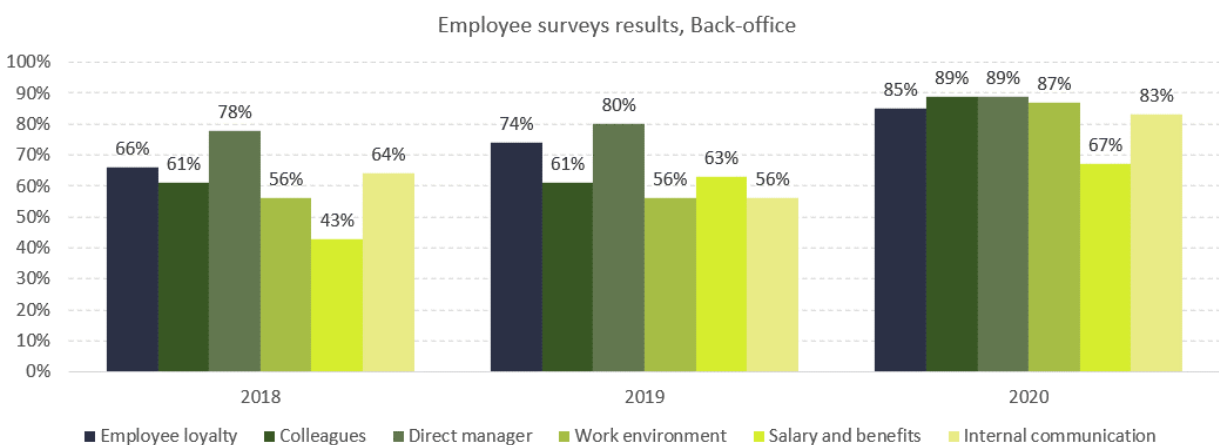


At the beginning of 2020, we changed the head office to a more modern and comfortable space, which increased employee satisfaction. It was also important for us to ensure that our new office space was easily accessible to people with reduced mobility.

2020 Employee survey results, Back-office.

Significant increases in categories where improvements were needed (% of positive answers - 2019 vs 2020):

- Work environment (56% vs 87%)
- Team cohesion - cooperation with colleagues (61% vs 89%)
- Information flow and internal communication (56% vs 83%)



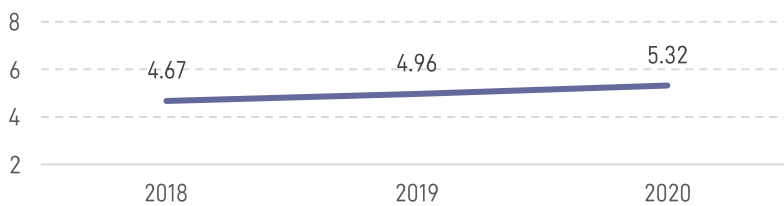
## Health and safety

### Benefits, wellness, insurance

We care about our team members' overall health and wellbeing. We therefore provide some of the best benefits in the country. In addition to great health care coverage, our new health insurance covers the COVID-19 vaccine. We also offer additional days off to celebrate milestone events such as weddings or the birth of a child. In the eleven years of the company's history, we have had zero work-related injuries. We take care of the safety of our employees by constantly improving working conditions and organizing safety training.

## Average employment time at the company

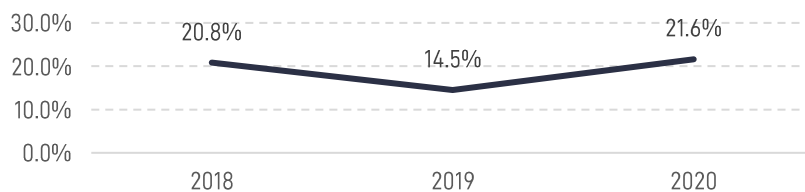
Average employment time in DelfinGroup, years



Across the world, employee tenure has been decreasing annually due to several factors such as demographics, socio-economic trends and industry trends. Here at DelfinGroup, average employment time continues to grow. In 2020, the average was five and a half years. This means that the core of our employees has worked with us for half of the company's life and is developing together with the company and industry.

## Percentage of employees released during the probation period

Percentage of employees released during the probation period

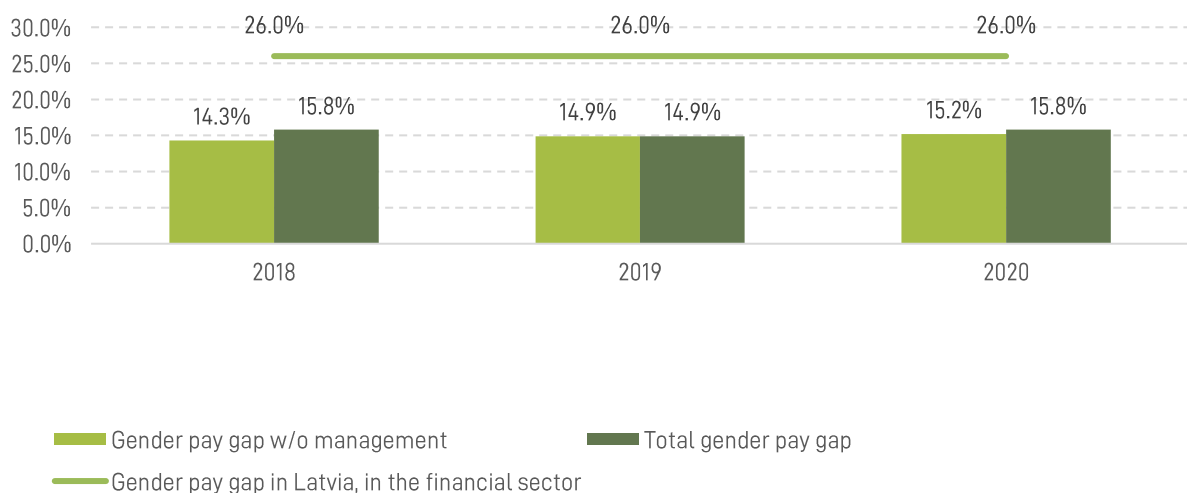


Even the most effective recruitment process cannot offer the full picture of a workplace until an employee has actually started working. Especially during the COVID-19 pandemic, when we are working remotely to protect each other, it was challenging for our new colleagues to begin working. During 2020, our Employees Released During the Probation Period index increased from 14.6% to 21%.

## Gender pay ratio

According to figures from the Central Statistical Bureau of Latvia, the Latvian gap for normal working hours reached 19.1% between men and women. The largest pay gap is in the financial and insurance sectors (26%).<sup>13</sup> DelfinGroup's gender pay gap in 2020 was at 16%.

Gender pay gap



<sup>13</sup> <https://www.csb.gov.lv/en/gender-equality-indicators/Employment-and-Earnings>



## Customers

Our customers are primarily Latvian residents. We have 92 branches located in 38 cities and towns. Additionally, our online platforms and customer call centre enable us to serve customers throughout the country.

### Making financial services easy

Our core focus is to make financial services easy for customers. This includes providing excellent service and financial solutions for existing customers and engaging underserved and disadvantaged members of our community.

In our 2020 benchmark survey, 97% of customers responded that it was easy or quite easy to interact with us.

While our customers generally believe it is easy to interact with us, we know there is always room for improvement. We continue to assess our branch locations, maintain a professional Customer Call Centre, and empower customers with access to online tools. We also recognize that improving access requires us to continuously scrutinize our efforts to ensure that no part of the population is denied access to financial services.

### Expanding digital solutions

With computers and smartphones, customers now have the ability to manage their Banknote and Vizia accounts, view account information, and perform transactions at home, work or on-the-go through their secure online account. We have designed easy-to-use online and mobile platforms that give more customers access to our financial services as well as our pre-owned goods store. Expanding the ways in which customers can access online services is more convenient as well as lowering our costs.

The COVID-19 pandemic has shown how much our customers value being able to access our financial services anytime, anywhere. Our online platforms continue to allow customers to interact from the safety of their homes. We continue to expand our online features to best serve our clients' needs.

### Rolling out a new loan product

To better serve our customers, Banknote, a DelfinGroup brand, introduced Banknote Pirkumiem (Banknote for Purchases) in 2020. This new consumer loan product offers "buy now, pay later" loans. It is considered to be an innovative product in the Latvian market, and is made available for existing and new customers by giving the option of receiving a loan to purchase a product selected in a physical or online store. Point of sale lending is a type of consumer loan. It is usually obtained to pay for purchases such as furniture, electronics and mobile phones. Under this arrangement, financing in the form of a personal loan is only provided to consumers when a specific product is purchased.

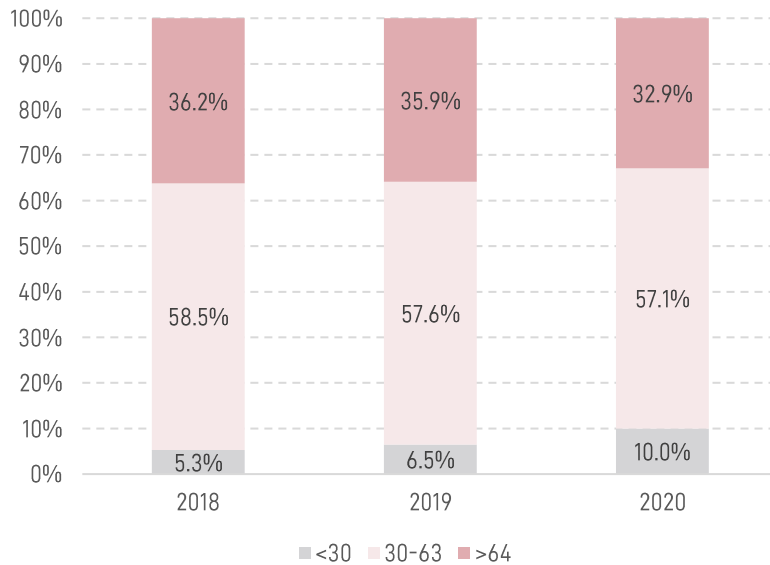
We also are optimistic that this new product will enable us to impact the environment by granting more favourable conditions for the purchase of environmentally-friendly purchases.



### Customer age and income diversity

According to DelfinGroup's client age diversity chart, there are two main groups of people who uses our services. More than half of our clients are in the 30-63 age group: mature and experienced people. Furthermore, about 33% of our clients are in the 64+ category, a group for whom we offer particularly advantageous loan conditions. Those aged under 30, make up about 10% of all DelfinGroup's customers.

## Customer portfolio, age diversity



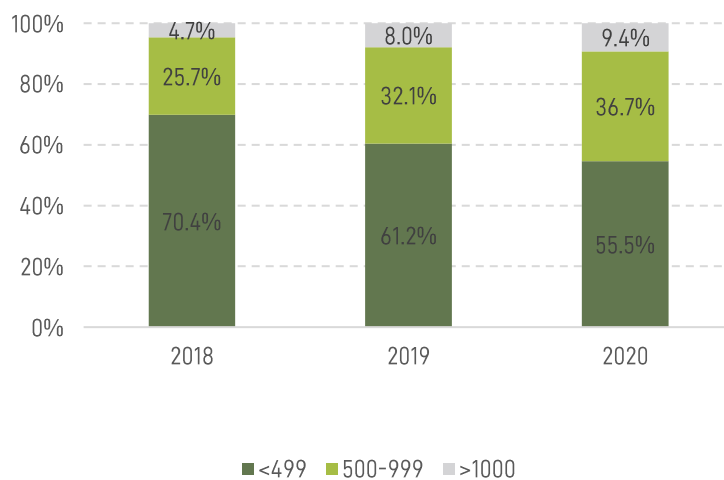
This customer age distribution indicates DelfinGroup's stable customer base, customers who are well aware of their abilities and obligations. We believe that this customer age distribution is sustainable and is also a good basis for loan repayment discipline, as well as being responsible to society as a whole.

There are several age restrictions for our services:

- Pawn loans are available to those who are at least 18 years old.
- Consumer loans are available from the age of 20.

## Client income diversity: consumer loans

### Customer portfolio, income diversity



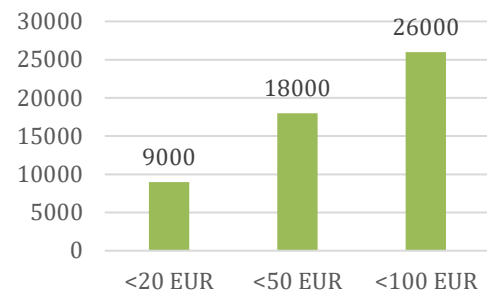
In 2020, approximately half of DelfinGroup's consumer loan clients had net monthly income exceeding EUR 500. The number of high-income customers has grown in recent years. About every tenth customer has a proven net income above EUR 1000. In turn, the number of clients whose net income is below EUR 500 is decreasing.

## Small money, larger impact

About 26 000 loans per month, which is 75% of the loans issued were under EUR 100. This chart reinforces the high need for our product. This is because:

- Such a sum is difficult to obtain from traditional financial institutions;
- There is a high demand for such services in the market;
- Customers find it easy to administer small loan amounts thanks to the extensive possibilities offered by DelfinGroup, such as payment extensions, a payment schedule or selling the pledge.

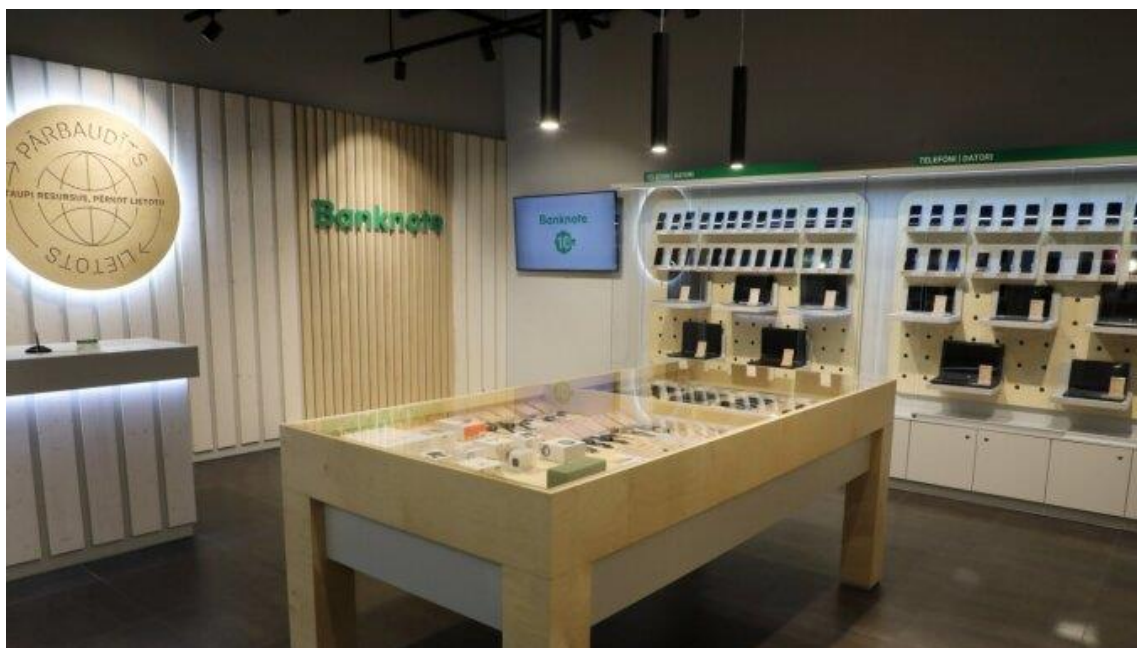
Average monthly loan transactions in 2020, count



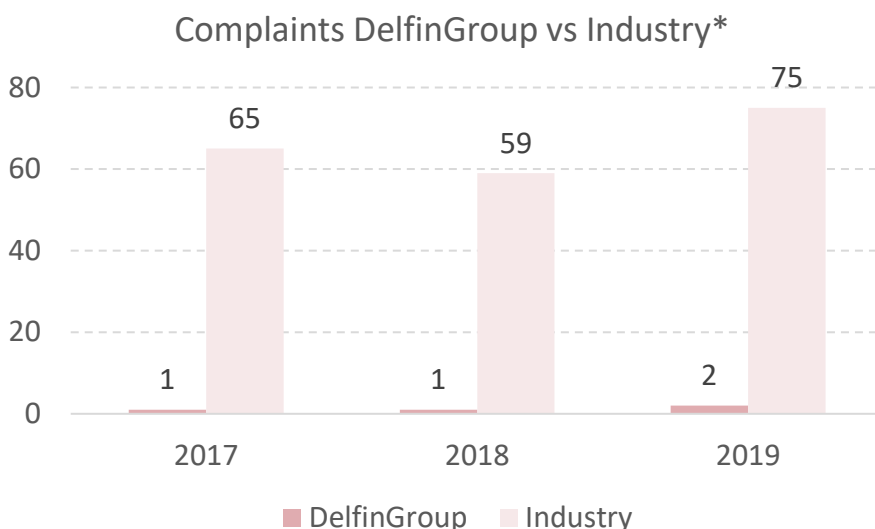
## Branch network

We have a wide network of branches which is particularly appreciated by the inhabitants of small towns, where DelfinGroup services are not only the only financial services available offline, but often also the only electrical goods store in the city. Banknote, with its wide network of branches, is the most geographically available financial institution in the country, being present in every single populated area of Latvia with at least 7,500 inhabitants.

There are two types of Banknote branches - closed type and open type branches. The 86 branches are of a closed type, where all services can be provided by one employee and we were very careful to adapt them to the requirements of safe trading during COVID-19. While 6 branches are open type branches, where there is a larger flow and the sale of goods is separated from lending transactions, these branches have several employees working at the same time.



## Complaints vs serious complaints



\*<https://www.ptac.gov.lv/lv/sudzibas-par-finansu-pakalpojumiem>

At DelfinGroup, we invite clients to provide feedback directly to a branch or our Customer Call Centre as well as via email or even WhatsApp. Employees who receive complaints are required to notify the client manager, who works to respond to the client in 30 days. We also monitor DelfinGroup social media and other online message boards, such as Google Reviews and local message boards, for client feedback. On a quarterly basis, our leadership team and compliance team review trends in customer feedback to identify any accessibility issues and to assess whether we should make any changes

to our policies or procedures.

Complaints received by the Consumer Protection Centre about the services of non-bank lenders:

DelfinGroup cares about customer experience when using our services. We carefully review every complaint and suggestion we receive from customers. DelfinGroup also actively cooperates with the Consumer Rights Protection Centre and regularly and gladly participates in discussions on the development of the industry.



## Community investment

DelfinGroup prioritizes such categories according to its community investment policy:

**Education.** Activities that focus on acquiring and improving skills that are useful nowadays to reduce the risk of social exclusion and promote people's competitiveness in the labour market, opportunities to earn additional income, as well as to develop financial literacy for better quality of day-to-day life;

**Healthcare.** Activities that focus on raising public awareness of one's own and peers' health, as well as improving access to health care, in order to quality of life and longevity;

**Environment.** Activities that focus on mitigating the negative effects of climate change and promoting biodiversity in order to build a better future for our children and grandchildren.

### Financial inclusion

DelfinGroup is committed to strengthening communities. DelfinGroup by its activities and services includes many disadvantaged groups in the financial and economic life. Not sufficiently included groups of people, such as retired people, people close to retirement age, rural and small town residents further from the capital city, underbanked and underserved borrowers, unbanked borrowers, near-prime borrowers – form a significant part of Latvian society and the interests of these groups cannot be ignored nor their ability to use financial services to improve the well-being of themselves and their relatives. As a financial institution, DelfinGroup work hard to meet their needs for credit services, thus promoting financial inclusion in the communities. At DelfinGroup we believe that financially inclusive communities are more sustainable and contribute to the society as a whole.

### Empowering the community with financial literacy

At DelfinGroup, we believe that improving access to financial services goes hand in hand with educating community on personal finance matters.

Our knowledgeable team members regularly hold seminars on financial topics, such as purchasing products, saving and investing money, managing credit, and insuring against losses.

Our team members donate their time in the community, providing financial literacy programmes. Our team members also volunteer in the senior community.

### Charity projects

Some of the ways we help residents of Latvia include donating to charitable organizations. DelfinGroup's long-term charity partners are the Latvian Association of Senior Communities and Latvian children's hospital fund.

#### Latvian children's hospital.

There is only one multi-profile medical care institution in Latvia - Children's Hospital. We are inspired how the professionals at hospital care about children, by offering the best health care possible as well as heartily support to children and their parents in difficult times. We have found that our donations for educational purposes of medical staff at hospital can have meaningful impact and we are grateful for such an opportunity.



#### Latvian association of senior communities.



The aim of the partnership is to promote the formation of a more inclusive society in Latvia, including helping the elderly to acquire skills that are critical today for using modern technologies. Seniors are one of the most socially vulnerable groups in Latvia, who feel particularly lonely and lack socialization opportunities. By learning new digital skills, seniors can successfully overcome the challenges of loneliness, make new friends, and find hobbies as well as job opportunities. So far, with the support of Banknote, we have been actively implementing Caring for Seniors, our social assistance project. As part of this, we help a Latvian senior every month with household appliances, home improvement or repairs.

# Corporate governance

Shareholder structure

General meeting

Supervisory board

Committees

Management board

Audit

Whistleblowing policy

Best corporate governance practices provides:

- Improved access to external financing
- Lower cost of capital
- Improved operational performance
- Higher company valuation
- Reduced risk of corporate crises

Baltic institute of corporate governance

## Corporate Governance

### Shareholder structure

Agris Evertovskis exercises control over AS DelfinGroup as the beneficiary of parent companies AE Consulting and EC Finance.

share par value EUR 0.10

Shareholder	Shares	%
SIA "L24 Finance"	26,074,130	65.18
SIA "AE Consulting"	4,000,000	10.00
SIA "EC Finance"	8,525,870	21.32
Management	1,400,000	3.50
<b>Total</b>	<b>40,000,000</b>	<b>100.00</b>

### Corporate culture

DelfinGroup's corporate culture is based on the organization's values, ethics, vision, behaviours and work environment. Corporate culture is what makes us unique, and it impacts everything from public image to employee engagement and retention. It is important that employees share the company's ethics, vision and other cultural elements, as this can positively affect a company's bottom line. We believe that companies with a good corporate culture often have high workplace morale as well as highly engaged, productive staff which leads to exceptional business results.

DelfinGroup's steps to develop its corporate culture.

- Hiring the right people. It is important for us to recruit people who share the company's values and DelfinGroup's Equality, Diversity and Inclusion policy.
- Setting goals. We are pleased to help our employees set personal goals and meet periodically to help them achieve those goals. We believe it makes our employees happier at work and goes along with their personal progress.
- Rewarding success. Here at DelfinGroup, we recognize every person's work.
- Trusting employees. Here at DelfinGroup, we trust our staff to do their work well.
- Having an open ear. It is extremely important to listen to our employees' needs, ideas and opinions.

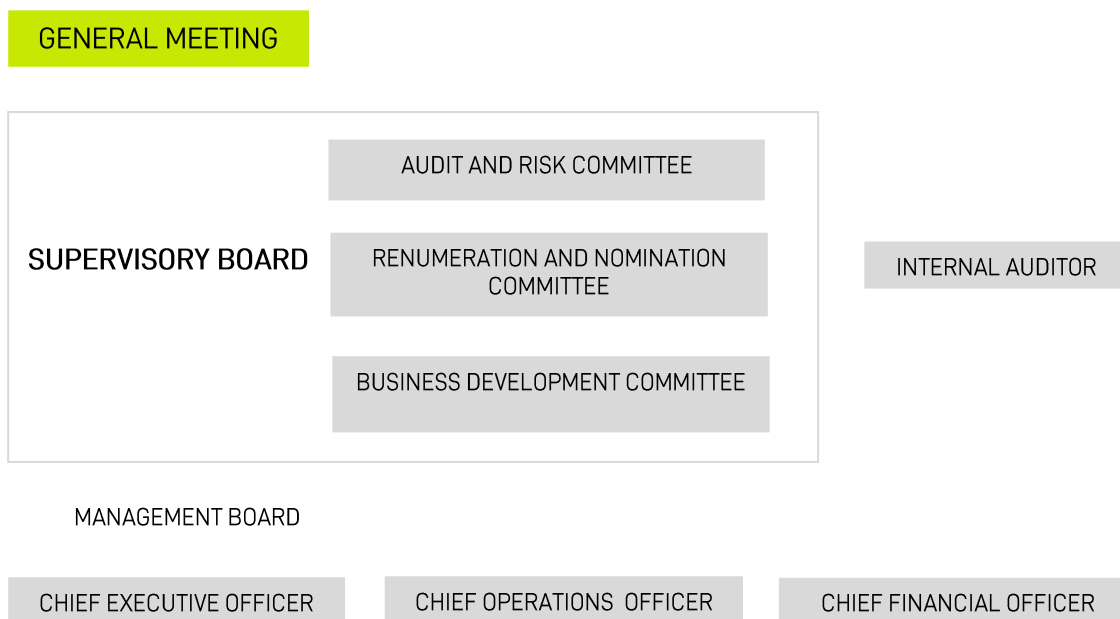
### General meeting

2020 was a year of making significant decisions. The decisions taken in 2020 are both the result of prudent management in previous years and strategic steps with a view to the future.

The most important decisions made at the shareholders' meeting in 2020:

- Increase in share capital from 1.5 mEUR to 4 mEUR;
- Reorganization of the company from a limited liability company into a joint stock company;
- Election of the company's supervisory board and management board
- Regular dividend payout decisions.

## Organisational chart



## Supervisory board

### Role of the supervisory board

A competent and experienced supervisory board is a precondition for the effective operation of the Company and decision-making, contributing to the long-term growth in value of the Company. The supervisory board works in the interests of all shareholders and the Company and considers interests of all stakeholders.

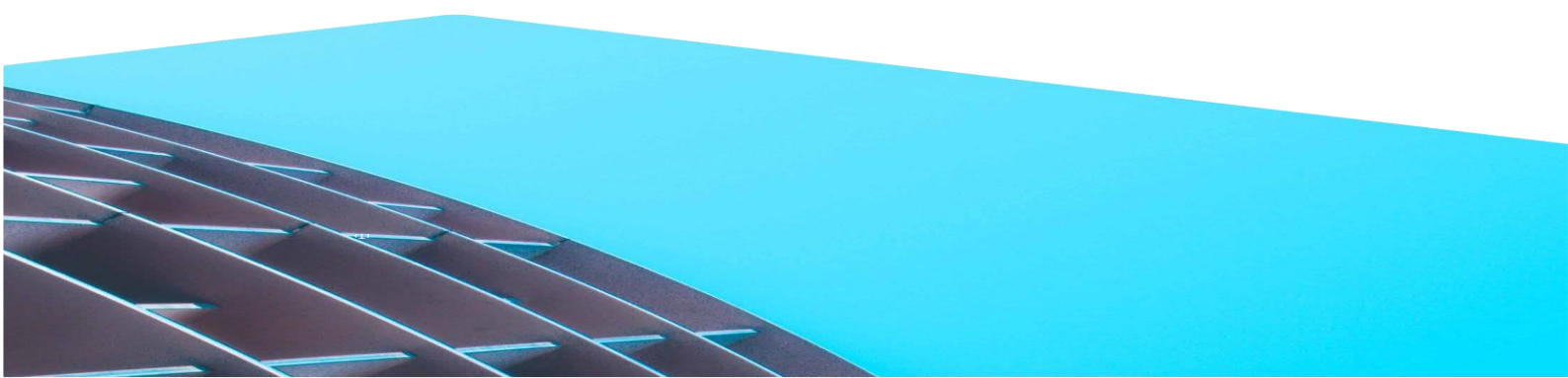
The DelfinGroup supervisory board approves the Company's strategy, and sets strategic goals and priorities for the management board. The supervisory board regularly reviews information prepared by the management board on the progress of implementing the strategy. The supervisory board defines the Company's core values, approves the code of culture and ethics, and monitors the effectiveness of the internal control system and risk governance.

The Company has established a transparent procedure for the selection and removal of supervisory board members.

In 2020, the supervisory board had 3 members, but at the beginning of 2021, an international recruitment process was announced for 3 to 4 independent members of the supervisory board. This is unique in the context of Latvia's business environment and private sector, and may become a new standard in the future for those companies who truly care about implementing the highest governance principles for managing local businesses in line with the recommendations of the OECD, Nasdaq Riga and the Baltic Corporate Management Institute.

### Makeup of DelfinGroup's new supervisory board

Each member of the supervisory board must be able to demonstrate the skills, experience and knowledge required to contribute to its effectiveness. Members must have at least five years' experience of working in a management position at a large and successful private or public company in the finance, e-commerce or service sector.





Chair of the supervisory board.

Founded the company in 2009.

BSc in Economics and Business from the Stockholm School of Economics in Riga

Chairman of the supervisory board since 2021.

Term of authority - March 2026.

Previous experience as Chairman of the board of DelfinGroup since 2009.

Compliance with independence criteria: 2,3,6,7,9.



Deputy chair of the supervisory board.

Joined the company in 2021.

MBA from the Stockholm School of Economics in Riga;

MSc in Physics from University of Latvia

Deputy chair of the supervisory board since 2021.

Term of authority - March 2026.

Previous experience in the boards of several companies, incl. life insurance, banking, telecommunications. Extensive international professional experience. Deep understanding of the financial sector - in the development of card and payment systems.

Compliance with independence criteria: Meets all the independence criteria



Member of the supervisory board

Joined the company in 2021.

Doctor in Social Sciences from University of Latvia; MBA from University of Latvia;

BSc from University of Latvia.

Member of the supervisory board since 2021.

Term of authority - March 2026.

Main areas of activity of previous extensive international professional experience - finance, accounting, financial and risk analysis, financial investigation. Rich professional experience allows to successfully work in the Company's audit committee, as well as to provide support to the Company in preparation for the IPO process and compliance with international accounting standards.

Compliance with independence criteria: Meets all the independence criteria

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**Jānis Pizičs**

Member of the supervisory board

Joined the company in 2021.

MBA from Riga Business School; BSc in Economics and Business from the Stockholm School of Economics in Riga.

Member of the supervisory board since 2021.  
Term of authority - March 2026.

Previous experience is mainly related to consumer lending, financial technologies, finance, budgeting issues, data science and analytics. Knowledge in the field of financial company development allows to provide additional value in the Company's business development committee.

Compliance with independence criteria: Meets all the independence criteria except 5



**Mārtiņš Bičevskis**

Member of the supervisory board

Joined the company in 2021.

BSc in Law from the University of Latvia.

Member of the supervisory board since 2021.  
Term of authority - March 2026.

Previous diverse professional experience, with an emphasis on communication with people, team building and leadership development. These competencies allows him to work effectively in the Company's remuneration committee.

Compliance with independence criteria: Meets all the independence criteria

#### **Supervisory board's independence criteria in accordance with the new Latvian Corporate Governance Code:**

1. Has not been a member of the Board, procurator, commercial trustee or employee of the company, its related companies or the controlling shareholder of the company for the previous three years and does not hold the said positions while holding the position of Member of the supervisory board.
2. Not a member, employee, representative or person advising a competing company on the board or council of a competing company.
3. In addition to the remuneration received as a member of the supervisory board, does not receive or has not received significant additional remuneration from the company, its related companies or from the controlling shareholder of the company.
4. Does not represent the company's controlling shareholders, either directly or indirectly.
5. Has not had any significant business relationship with the company, its related companies or the controlling shareholder of the company during the last three years prior to the approval of the person as a member of the supervisory board.
6. Has not been an internal controller, auditor or employee of a company performing the functions of an external auditor for the company, related companies or a company that is a controlling shareholder of the company during the last three years.
7. Has not been a member of the company's council for more than ten years in a row.
8. Does not own more than 10% of the company's shares.
9. Is not the family member of a Board Member or shareholder with the specified amount of participation or a family member of the persons to whom the above criteria apply. For the purposes of this paragraph, parents, grandparents, children, grandchildren, adopted children, adoptive parents, brother, sister, half-sister, half-brother, spouse are considered family members.

## DelfinGroup's committees

The Audit and risk committee oversees the financial reporting and disclosure process. The Audit and risk committee consists of 3 members (2 of which are independent):

Audit and risk committee chair – Dr. Edgars Voljskis;

Audit and risk committee members – Gatis Kokins, Jānis Pizičs.

The role of the audit and risk committee is:

- Overseeing of financial reporting;
- Budget control;
- Compliance (legal, consumer protection, KYC, AML, GDPR) control;
- Risk governance and internal control oversight;
- Oversight of the independent (external) auditors;
- Oversight of internal audit;
- Monitor the effectiveness of whistleblowing procedures;
- Consult supervisory board on finance and risk related specific matters.

The Nomination and remuneration committee is responsible for all elements of remuneration, including bonus schemes for the management board. It also coordinates the framework and policy for the remuneration of other senior managers of DelfinGroup with the management board. The Nomination and remuneration committee consists of 3 members (2 of which are independent):

Nomination and remuneration committee chair – Mārtiņš Bičevskis;

Nomination and remuneration committee members – Gatis Kokins, Agris Evertovskis.

The role of the Nomination and remuneration committee includes:

- To assist the Supervisory Board in matters related to the appointment and compensation of the Company's CEO and Management Board and internal auditor candidates;
- To facilitate annual supervisory board performance assessment and prepares for the Annual general meeting a proposal on the number of supervisory board members, management board composition and management board member compensation;
- To recommend, prepare and propose to the supervisory board the management board members' and internal auditors' nomination, salary, compensation and development plans, and further evaluates and provides the supervisory board and the CEO with recommendations concerning management and employees rewards, compensation systems and succession planning;
- To prepare the remuneration policy and remuneration report for the Company's governing bodies.

The Business Development Committee submits recommendations to the supervisory boards regarding business related matters. It is a responsibility of the Committee members to ensure that recommendations which may impact other advisory groups are communicated transparently and inclusively. Business development committee consists of 3 members (1 of which is independent):

Committee chair – Jānis Pizičs;

Committee members – Gatis Kokins, Agris Evertovskis.

The role of the Business development committee includes:

- Budget and business forecast approval;
- Oversight of product profitability improvements;
- Oversight of new product development;
- Evaluation of product scaling strategy;
- Oversight of business processes' efficiency improvements;
- Consult supervisory board on business and product specific matters.

## Management board

The company's management board is comprised of the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer. Each member of the management board must be able to demonstrate the skills, experience and knowledge required to contribute to its effectiveness.

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Chief Executive Officer.

Master's degree in Economics and Business Administration from Riga Technical University.

CEO at DelfinGroup since 2018 and member of the management board since 2014. Various management positions in Company since 2010.

Previous experience as Chief Operating Officer at several real estate companies (2008-2010); Retail credit specialist at Swedbank (2007-2008).

Responsible at DelfinGroup for developing the strategy for the business in conjunction with the supervisory board, ensuring it is implemented, and the operational management of the business.

Working for the Company since 2010.



Chief Financial Officer.

BSc in Economics and Business Administration from the Stockholm School of Economics in Riga; ACCA candidate (passed 12 of 14 examinations)

CFO at DelfinGroup since 2012 and member of the management board since 2014.

Previous experience as member of the management board and CFO at Vision Express Baltija (2005-2012).

Responsible at DelfinGroup for supporting the CEO in developing and implementing the strategy and for reporting the financial and operational performance of the business.

Working for the Company since 2012.



Chief Operations Officer.

Master's degree in Economics from BA School of Business and Finance; BSc degree in Finance Management from BA School of Business and Finance; BSc degree in Law from Turība University.

COO at DelfinGroup since 2015 and member of the management board since 2018.

Previous experience as Managing Director for leading global loyalty programme Lyonesse (2012-2015); member of the board at Lafiko.lv payday lender (2010-2012).

Responsible at DelfinGroup for overseeing the day-to-day administrative and operational functions of the business.

Working for the Company since 2015.

## Role of the management board

The management board is responsible for setting the DelfinGroup's strategy for achieving long-term success in accordance with its vision and values, and ensuring the necessary resources and capabilities are in place. The management board is also responsible for establishing the Group's governance structure, the effectiveness of internal controls, and risk management.

The management board has played an active and ongoing role in DelfinGroup's response to the COVID-19 pandemic. The management board has also invested considerable time over the last year in reviewing and assessing:

- The efficiency of strategy and the degree to which it remains appropriate in light of market developments;
- The effectiveness of capital allocation priorities;
- The effectiveness of employee and customer health and safety practices;
- DelfinGroup's management resource to ensure it remains motivated and rewarded appropriately;
- Corporate governance policies and the importance of good corporate governance to the long-term sustainable success of a company.

One of the primary responsibilities of the management board is to ensure that the Company preserves value over the long term in a sustainable manner, taking into consideration both value for stakeholders and the company's contribution to wider society.

## Audit

In 2020, we established a new department in the Company: internal audit. We are convinced that the new and independent position in the Company will bring added value to all parties involved.

The position of internal auditor provides for:

- Functional independence from the management board and accountability to the supervisory board;
- The position of internal auditor shall be approved by the supervisory board;
- The internal auditor develops a risk-based approach for an internal audit plan approved by the supervisory board;
- The internal auditor shall inform the management board and the supervisory board of implementation of the internal audit plan, audit results and recommended actions to address deficiencies, if any.

The supervisory board and the Audit Committee determine the selection criteria for the external auditor. The external auditor is chosen for a period of no longer than 5 years. Currently DelfinGroup's external audit company is BDO Assurance, which is a well-known audit company throughout Latvia. Internationally, BDO is a leading expert organization specialising in financial management in the SME sector. BDO's global network extends across 162 countries and territories, with 80,000 experts working out of 1,500 offices. Audit reports issued by BDO are recognized by all foreign and international companies and organizations.



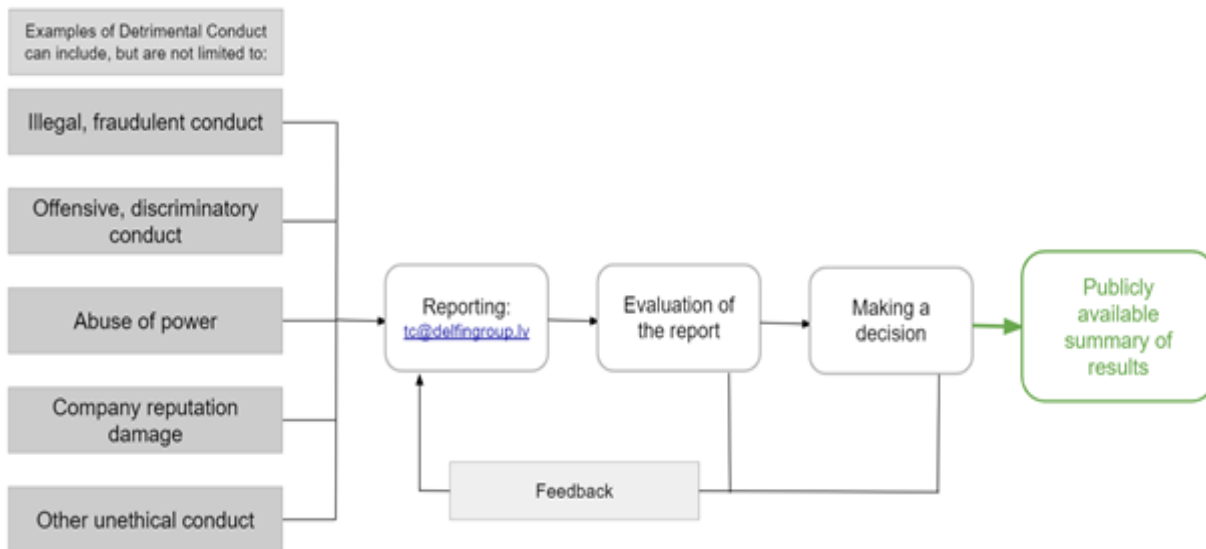
## Whistleblowing policy

We developed this Policy in 2020 in accordance with the relevant legal requirements and the current Good Practice Guidelines developed by the State Chancellery. This policy is available to all current partners and employees on the DelfinGroup website and as a DelfinGroup intranet resource. The policy will be periodically reviewed by the management board. The management board will oversee the policy.

The whistleblower may report anything that he or she has reasonable grounds to suspect, such as:

- Conduct that constitutes a contravention of law;
- Conduct that represents a danger to DelfinGroup, DelfinGroup employees, customers or the community.

We are committed to taking all reasonable steps to protect the whistleblower from detriment as a result of making a report under this whistleblowing policy.





# Industry

Regulated business segment

Main competitors

Industry myth vs realities





## Industry

### Regulated business segment

Non-bank lending is perceived as a strictly-regulated business segment as it is subject to numerous laws, regulations, policies and guidelines. In recent years, the laws and regulations applicable to non-bank lending businesses have become more rigorous. More specifically, in 2019 a number of amendments to the Consumer Rights Protection Law were adopted, providing for the following requirements:

- Assessment of the ability of the consumer to repay the loan has been made more strict, as the law sets formal guidelines and requirements for the non-bank loan providers to acquire full information and ascertain the ability of the consumer to repay the loan (is applicable to consumer loan product);
- Interest rate restriction: the total cost of credit to the consumer has been expressed as per diem percentage (0.07%) of the total loan amount issued (is applicable to consumer loan product);
- Advertising restrictions: a general ban on the advertising of non-bank loans, subject to a few exceptions, excluding advertising a trademark (is applicable to both consumer loan and pawn loan products).

The above specified amendments to the Consumer Rights Protection Law have not materially affected the financial standing of DelfinGroup. However, they have created an additional administrative burden for DelfinGroup.

Compliance with Anti money laundering (AML)/Combating the financing of terrorism (CFT)/Certified financial planner (CFP) regulations

European Anti-Money Laundering and Terrorism and Proliferation Financing Prevention regulations, as well as international and national sanction regulations covering the finance industry, are becoming increasingly more complex. When it comes to providers of consumer lending, the risk of money laundering and terrorism and proliferation financing is elevated, and DelfinGroup governs those risks very seriously. DelfinGroup's operations are currently supervised by the Consumer Rights Protection Centre.

DelfinGroup emphasizes the importance of AML/CFT/CFP and national and international sanctions compliance in everyday operations. Among other compliance procedures, DelfinGroup carry out ongoing assessments of respective client bases in accordance with the applicable AML/CFT/CFP regulations and that adequate customer due diligence procedures have been implemented.

DelfinGroup has adopted and implements AML/CFT/CFP policy and respective procedures which have been coordinated with the Consumer Rights Protection Centre. The Company Training Department conducts regular AML/CFT/CPF training sessions for DelfinGroup's employees.

### New consumer agenda

The new consumer policy of the European Commission sets out priorities for the coming years in light of the COVID-19 pandemic and its aftermath. It also refers to a number of legislative proposals set to be adopted in 2021.

In 2021, the European Commission plans to elaborate proposals designed to revise the Consumer Credit Directive and the Distance Marketing of Financial Services Directive to reinforce consumer protection in the context of digitalisation of retail financial services. The evaluation of the Consumer Credit Directive (CCD) has revealed a number of challenges which have been identified at various stages of operation of the Directive.

As of December 2020, the European Commission has started drafting the proposal for amendments to the Consumer Credit Directive. As indicated above, the proposal will be published in 2021 for public consultation. Only then will it be possible to completely assess the risks imposed by the amendments to the Consumer Credit Directive.

Considering that the amendments will be based on the report of the Consumer Credit Directive's shortcomings published by the European Commission (main findings of the report reflected above), the amendments will most likely impact DelfinGroup positively.

#### **DelfinGroup's strengths:**

##### **Market leader**

The Company has experienced constant growth throughout its history in a variety of business areas, including financial performance, number of brands, the size of the Company in terms of branches, employees, customer base, diversity of products and industry knowledge.

The above was made possible with the help of the management team, which has acquired significant expertise in the consumer lending and retail business, continuous employee education and development of new education programmes, and focuses on responsible lending and customer needs for convenient and valuable services. The team has therefore acquired the reputation of a trustworthy and highly professional market player with the ability to respond rapidly to both regulatory changes and unprecedented life events such as COVID-19.

##### **Focus on sustainability**

The Company believes that operating its business in a sustainable way will help to ensure the long-term sustainability of the Company with maximum added value for its stakeholders. The Company has implemented strong corporate governance with top industry practices throughout the Company with the aim of operating its business in the best possible way.

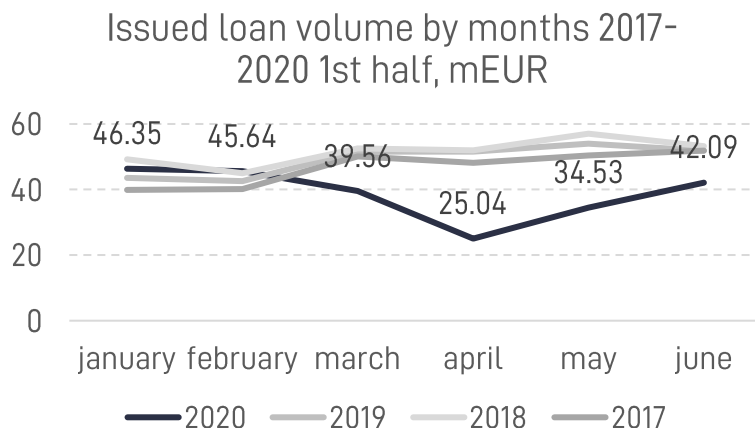
The Company not only has robust corporate governance that provides for sustainable decision making and management, but it also focuses on ensuring that its business helps develop sustainability in society as a whole not only by promoting financial inclusion by its financial services but also by the way of promoting the circular economy through its retail business.

The company's decision to begin publishing ESG reports as of 2020 serves to reinforce this.

##### **Digitally advanced**

The Company takes pride in the advanced technology it has implemented both in its processes and the provision of its services to customers. DelfinGroup provides the option of accessing almost all of its services online, and is constantly developing products that can be accessed by everyone digitally to enhance the customer experience and operation efficiency. At the same time, a robust brick and mortar presence is available to help maximise financial inclusion for its customers, who may not always have easy access to such platforms. Company management utilizes modern business intelligence systems to monitor business performance and support prompt daily business decisions.

#### Number of market players<sup>14</sup>:

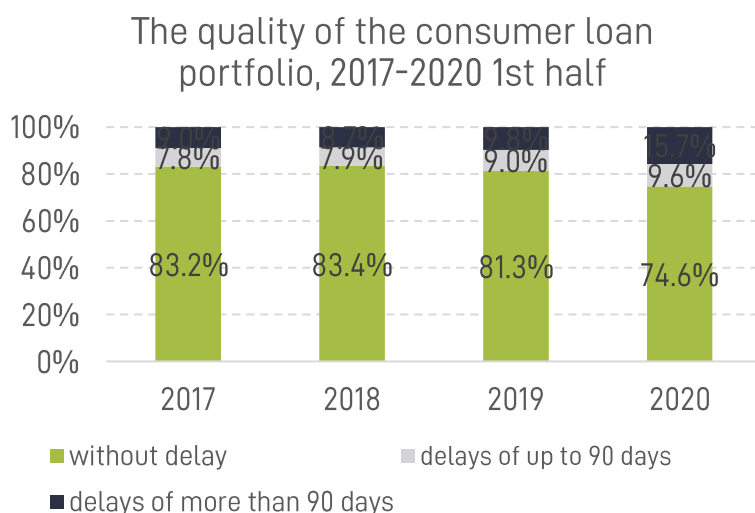


29 companies in Latvia operate in consumer lending business,<sup>15</sup>

8 companies issued loans against the pledge of movable property – pawn loans.

At the beginning of 2020, the consumer credit sector continued to grow and the total amount of loans issued was the largest in the last 7 years. However, by March 2020, when the state of emergency began, the volume of new loans decreased by an average of 13% y-o-y and in April by 37% y-o-y. Since 2013, this is the absolute lowest monthly issue in mEUR terms (refer to the following chart).

Nevertheless, by May 2020, the number of loans issued increased again, and this upturn has continued.



The overall quality of the loan portfolio in the industry has been stable for three years.

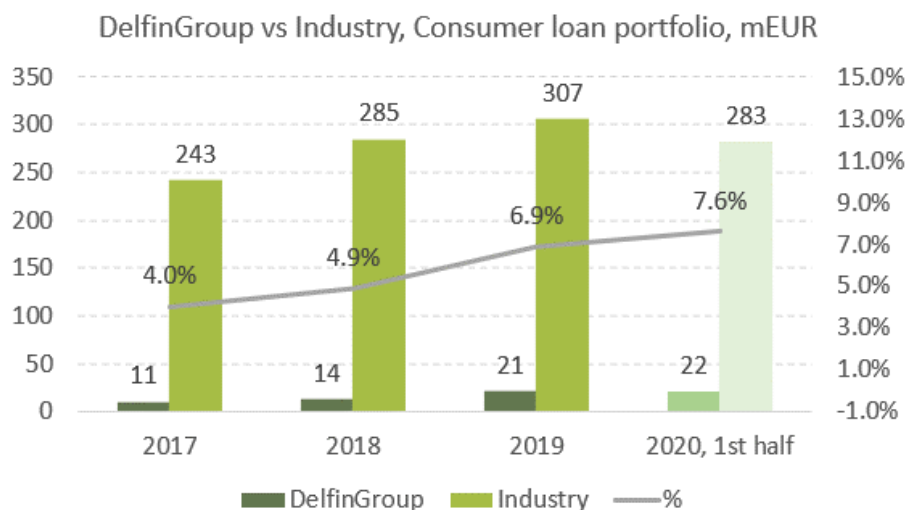
<sup>14</sup> <https://www.ptac.gov.lv/lv/statistika-par-nebanku-kreditesanas-sektoru>

<sup>15</sup> In this sense, distance and consumer lenders are listed according to the CRPC classification

## Main competitors

### Main competitors: consumer loans:

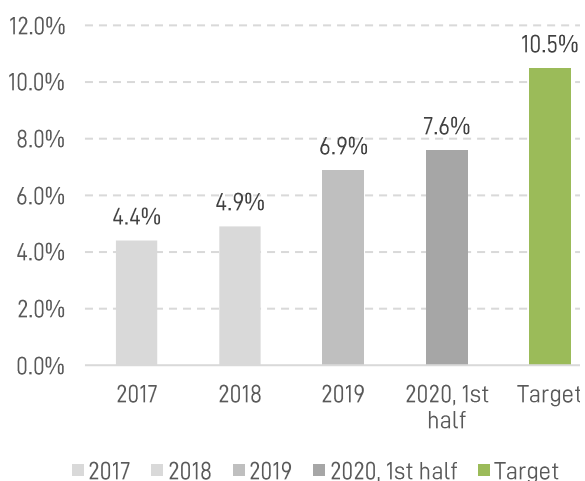
DelfinGroup vs. Industry, Consumer loan portfolio 2020 1<sup>st</sup> half



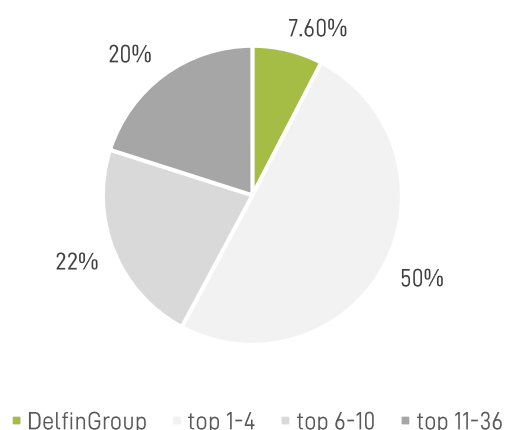
We continue to grow our market share in the Latvian non-bank consumer loan market. Our major competitors are InCredit Group, IPF Digital Latvia, Aizdevums.lv, ExtraCredit, 4Finance and Inbank Latvia. There are still many smaller players in the industry. However, according to the Consumer Protection Centre, small lenders leave the market every year. This is due to legislation and natural market

regulation caused by competition. This is a capital-intensive industry where size matters. Larger scale brings cost benefits advantage and enables developing and introducing more sophisticated solutions in areas like IT, user experience and data science. While there will always be room for new players, the market share of the major players is likely to continue to grow in the medium term.

### DelfinGroup market share development, Consumer loan



### Market share 2020 1st half, Consumer loan

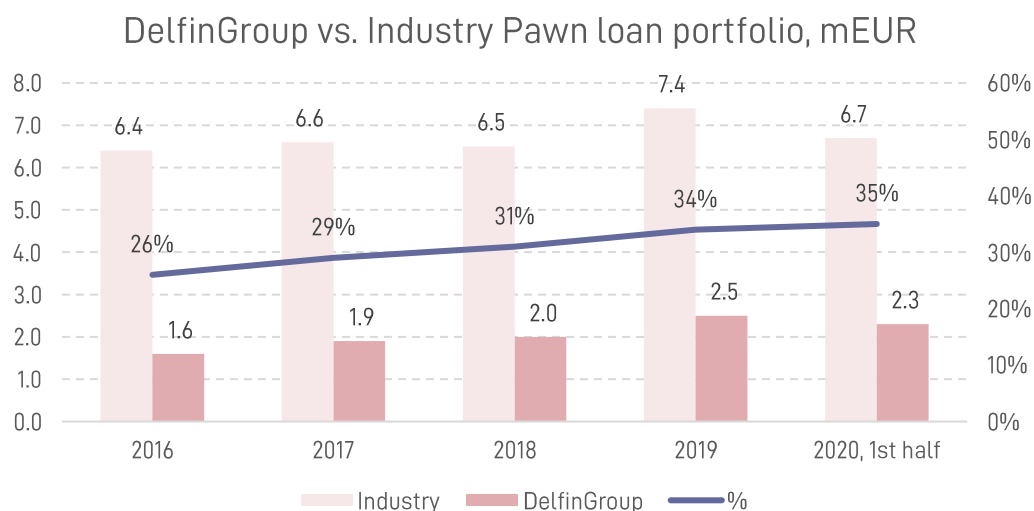


The total loan portfolio of non-bank lenders has more than doubled since 2013. Non-bank lenders are constantly improving their services and are easy to use, and the non-bank lending industry is likely to continue to grow. We are confident that as the market grows, our market share will also continue to increase. DelfinGroup has a good track record, having more than doubled our market share since 2016. We continue to set ambitious targets for continuing to increase this, with an initial goal of 10.5% by the end of 2022.



## Main competitors: pawn loans

DelfinGroup vs. Industry, Pawn loan portfolio 2020 1<sup>st</sup> half, mEUR



The pawn loan portfolio volume has been largely stable over the last 7 years. Historically, the pawn shop market consists of small and independent local shops. DelfinGroup was the first pawn shop to rapidly cover the Latvian market with an extensive open-

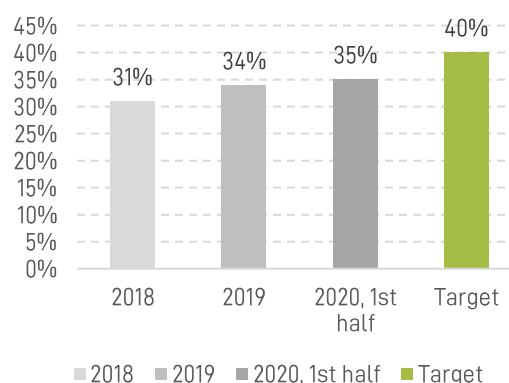
type branch network.

We continue to be the largest pawn shop network in Latvia, and we continue to grow. As the largest, we have a 35% market share by pawn loan portfolio. We plan to be well positioned in the market with our strong customer service, large loan to value ratio, wide network of branches and wide range of acceptable collateral, as well as online services.

Players, pawn shop:<sup>16</sup>

1	<b>DelfinGroup</b>	<b>92 branches</b>
2	E-Lats	36 branches
3	Moda Kapitāls	26 branches
4	Vita Credit	26 branches
6	Ātrais kredīts	6 branches
7	Finance 360	17 branches
8	Fresh Cash Latvija	12 branches
9	Ozcredit.lv	14 branches

## DelfinGroup market share development, Pawn loan



Our major competitors are Vita Credit, E-lats and Moda kapitāls. Furthermore, there are still many small local players in the industry. The market dynamics suggested that the leading players in the industry are trying to expand their branch network and diversify services.

	Wide branch network in regions	Pledge – gold	Pledge – electronic devices	Developed consumer loan
<b>DelfinGroup</b>	Yes	Yes	Yes	Yes
Vita Credit	Limited	Yes	Yes	No
E-lats	Limited	Yes	Limited	Limited
Moda kapitāls	Yes	Yes	Limited	No

We will continue to invest in the Latvian pawn shop market as we seek to increase our market share to 40%.

<sup>16</sup> [Kapitālsabiedrības, kuras sanēmušas speciālo atļauju \(licenci\) patērētāju kredītēšanas pakalpojumu sniegšanai | ptac.gov.lv](https://ptac.gov.lv)

## Industry myths vs. realities

Pawn shops accept pledges with questionable origin:	<ol style="list-style-type: none"> <li>1. DelfinGroup is not interested in accepting such pledges, as it causes irreversible financial losses, and harms the product, and Company's reputation;</li> <li>2. Every customer is identified by a passport or ID card and registered in the system;</li> <li>3. A low percentage<sup>17</sup> of pledges are seized by the police, which indicates that there is no rotation of illegally obtained property through DelfinGroup pawn shops;</li> <li>4. Certain groups of goods are excluded from circulation or accepted only with original ownership or state issued registration documents (e.g., bicycles).</li> </ol>
The goods in pawn shops are damaged:	<ol style="list-style-type: none"> <li>1. If the product is defective, it is repaired or disposed of. Defective items are not kept in stores;</li> <li>2. The product is inspected upon acceptance. If there is a major defect, the transaction is rejected;</li> <li>3. Staff are trained to inspect goods;</li> <li>4. Internal audits are performed in order to find defective items;</li> <li>5. All goods sold at Company's shops have warranty.</li> </ol>
There is a high nonperforming loan (NPL) rate:	The average NPL rate for DelfinGroup's consumer loans is around 5%, which is lower than the industry average and is generally a good result. In line with our strategy, we plan to keep NPL below 5%.
Consumer loan rates are high:	<ol style="list-style-type: none"> <li>1. Since 01.07.2019, interest rates have been reduced to 0.07% per day under the Consumer Protection Law and are in fact significantly lower than in 2010 and 2015, as well as close to commercial bank credit card and consumer loan rates;</li> <li>2. The interest rate reflects the level of risk and the cost of capital;</li> <li>3. Interest is the cost of credit and these credit costs are governed by market demand and supply;</li> <li>4. In Latvia, interest rates on similar loans are lower than elsewhere in Europe, including in Lithuania, Estonia, the UK, Spain, Denmark and a number of other developed countries;</li> <li>5. Looking solely at our interest rates can be misleading as that the average loan amount is often very small compared to bank loans (yet both require feasibility is credit risk analysis which is a resource-based expense for the Company).</li> </ol>

<sup>17</sup> In 2020, the police seized 0.13% of the pledged items.



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